88-1020

No.

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

W. SCHLAFHORST & CO.,
AMERICAN SCHLAFHORST COMPANY
and GREENWOOD MILLS, INC.,
Petitioners,

v.

SCHUBERT & SALZER MASCHINENFABRIK
AKTIENGESELLSCHAFT,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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QUESTIONS PRESENTED

Petitioners won a jury verdict on the factual issue whether Respondent should have filed a secret patent pooling agreement with the Patent and Trademark Office (hereinafter "PTO") under 35 U.S.C.A. § 135(c). There was a timely demand for a jury under Fed. R. Civ. P. 38(b); there was no stipulation consenting to a bench trial under Rule 39(a); and Petitioner's arguments that the § 135(c) issue was one of law were made under the express protection of Rule 50(a). Petitioner, however, did not explicitly object to the district court's equivocal statements during trial that the jury would be "advisory only" on the § 135(c) issue. The district court disregarded the jury verdict on the *sole* ground that the verdict was advisory and entered judgment for Respondent in the amount of $6.3 million. Recognizing that Rule 39(a) protects the seventh amendment right to a jury trial, the first question presented is:

1. Does Rule 39(a) mean what it says?

The secret patent pooling agreement gave Respondent and two of its competitors the right to each other's patents royalty free. As Respondent's counsel said at trial, "[t]hey were friendly competitors, that's what the whole system is about." The PTO began an interference proceeding to determine whether Respondent or one of its seemingly adverse "friendly competitors" had the right to patent an invention. Without filing the secret agreement, Respondent's "friendly competitor" voluntarily terminated the interference by surrendering any claim to the invention. Under § 135(c), agreements that are "causally connected" to the termination of an interference must be filed with the PTO. The second question presented is:

2. Is a secret patent pooling agreement, which makes the parties to an interference "friendly competitors," causally connected to the voluntary termination of the interference?

PARTIES

Pursuant to Rule 28.1, Petitioner W. Schlafhorst & Co. states that it is an affiliate of Petitioner American Schlafhorst Company. With this exception, Petitioners have no parent companies, subsidiaries (except wholly-owned subsidiaries) or publicly held affiliates.

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioners W. Schlafhorst & Co., American Schlafhorst Company, and Greenwood Mills, Inc. ask that a writ of certiorari be issued to review the judgment of the Court of Appeals for the Federal Circuit, entered on August 24, 1988.

OPINIONS BELOW

The unreported opinion of the Federal Circuit appears as Appendix A to this Petition. The existence of the opinion is reported at 856 F.2d 202 (Fed. Cir. 1988). The unreported opinion of the Magistrate in the district court, entered on July 8, 1987, appears as Appendix B

to this Petition. The jury's verdict in answer to special interrogatories on June 26, 1987 appears as Appendix C to this Petition.

JURISDICTION

The judgment of the Court of Appeals (Appendix A) was entered on August 24, 1988. A timely petition for rehearing was denied on October 12, 1988 (Appendix D). (A suggestion for rehearing *en banc*, which was made as part of the petition for rehearing, was denied separately on October 28, 1988.) Jurisdiction of this Court is invoked under 28 U.S.C.A. § 1254(1) (West 1966).

STATUTORY AND CONSTITUTIONAL PROVISIONS INVOLVED

The seventh amendment to the United States Constitution provides as follows:

> In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

Title 35 U.S.C.A. § 135(c) (West 1984), provides in relevant part as follows:

> (c) Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such

> agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved. . . .

Title 35 U.S.C.A. § 135 (West 1984 and Supp. 1988) appears in full text as Appendix E.

Rule 38(a), (b) and (d) of the Federal Rules of Civil Procedure provides as follows:

> **Jury Trial of Right**
>
> (a) **Right Reserved.** The right of trial by jury as declared by the Seventh Amendment to the Constitution or as given by a statute of the United States shall be preserved to the parties inviolate.
>
> (b) **Demand.** Any party may demand a trial by jury of any issue triable of right by a jury by serving upon the other parties a demand therefor in writing at any time after the commencement of the action and not later than 10 days after the service of the last pleading directed to such issue.
>
> . . . .
>
> (d) **Waiver.** The failure of a party to serve a demand as required by this rule and to file it as required by Rule 5(d) constitutes a waiver by the party of trial by jury. A demand for trial by jury made as herein provided may not be withdrawn without the consent of the parties.

Rule 39(a) and (c) of the Federal Rules of Civil Procedure provides as follows:

> **Trial by Jury or by the Court**
>
> (a) **By Jury.** When trial by jury has been demanded as provided in Rule 38, the action shall be designated upon the docket as a jury action. The

trial of all issues so demanded shall be by jury, unless (1) the parties of their attorneys of record, by written stipulation filed with the court or by an oral stipulation made in open court and entered in the record, consent to trial by the court sitting without a jury or (2) the court upon motion or of its own initiative finds that a right of trial by jury of some or all of those issues does not exist under the Constitution or statutes of the United States.

. . . .

(c) **Advisory Jury and Trial by Consent.** In all actions not triable of right by a jury the court upon motion or of its own initiative may try any issue with an advisory jury or, except in actions against the United States when a statute of the United States provides for trial without a jury, the court, with the consent of both parties, may order a trial with a jury whose verdict has the same effect as if trial by jury had been a matter of right.

Rule 50(a) and (b) of the Federal Rules of Civil Procedure provides in part as follows:

Motion for a Directed Verdict and for Judgment Notwithstanding the Verdict.

(a) **Motion for Directed Verdict: When Made; Effect.** A . . . motion for a directed verdict which is not granted is not a waiver of trial by jury even though all parties to the action have moved for directed verdicts. . . .

(b) **Motion for Judgment Notwithstanding the Verdict.** Whenever a motion for a directed verdict made at the close of all the evidence is denied or for any reason is not granted, the court is deemed to have submitted the action to the jury subject to a later determination of the legal questions raised by the motion. . . . If a verdict was returned the court may allow the judgment to stand or may reopen the judgment and either order a new trial or direct the entry of judgment as if the requested verdict had been directed. . . .

STATEMENT OF THE CASE

The Parties

Petitioner W. Schlafhorst & Co. ("Schlafhorst"), a West German firm, manufacturers and sells textile machinery. Until the early 1970's, Schlafhorst's business was focused on yarn-winding machines. In 1974, however, Schlafhorst began research and development of a new, fully automated "open-end" yarn spinning machine, which used a high-speed rotor to twist fibers into yarn. Schlafhorst had not previously made open-end (or "OE") spinning machines, and the market for those machines had been dominated by a Western European consortium, which included Respondent Schubert & Salzer Maschinenfabrik Aktiengesellschaft ("Schubert & Salzer"). Schlafhorst's OE spinning machine was introduced in 1978, and its commercial success led in 1985 to the present litigation.

Petitioner American Schlafhorst Company is the sales and service representative in the United States of W. Schlafhorst & Co., and Petitioner Greenwood Mills, Inc. is a purchaser and user of Schlafhorst's OE spinning machine. The Petitioners will be referred to collectively as "Schlafhorst."

Respondent Schubert & Salzer, which is also a West German textile machinery firm, holds a United States patent on a method and apparatus of cleaning the rotor that twists fibers into yarn. As noted above, Schubert & Salzer was a member of a consortium with the two other leading Western European spinning machine manufacturers. In December 1985, Schubert & Salzer sued Schlafhorst in the United States District Court for the District of South Carolina, alleging that Schlafhorst's OE spinning machine infringed Schubert & Salzer's patent. The jury found in favor of Schubert & Salzer on infringement, but also found that the infringement was not willful. The jury calculated that a reasonable roy-

alty to compensate for the infringement would be $6.3 million. *See* jury verdict at Appendix C. None of these jury findings are at issue in this Petition. On the other hand, the jury further found that Schubert had not complied with 35 U.S.C. § 135(c), which renders the patent unenforceable. As explained below, this finding is very much involved in this petition.

The Secret Pooling Agreement

The OE spinning technology that is involved in this lawsuit was introduced in the mid-1960's, and because of its greater speed was immediately recognized to be extremely valuable. In 1965, Respondent Schubert & Salzer, along with a Swiss concern, Maschinenfabrik Rieter Aktiengesellschaft ("Rieter"), and a British company, TMM (Research) Ltd.,[1] entered into a *secret* pooling agreement "to try jointly to develop OE spinning up to an economically usable method." The secret pooling agreement, in an English translation, appears as Appendix F to this Petition.

The agreement explicitly required secrecy: "The fact of common development in the field of OE spinning is to be kept secret from outsiders." App. F, at 36a. Furthermore, the agreement provided for blanket, royalty free cross-licenses: "Any inventions, whether patented or not . . . in this field, which has been invented by any one of the parties, must be made available to all parties licence-free for commercial utilization." Intellectual property in the OE field under the agreement "may only be disposed of with the consent of all the partners." *Id.* at 38a. The agreement was for a term of 10 years, unless the aim of the agreement (i.e., development of a "commercially usable method") was achieved earlier. Even after termination, however, the intellectual property

[1] TMM (Research) Ltd. was controlled by the large British concern Stone-Platt Industries, Ltd., which also owned Platt Saco Lowell, Ltd. and its U.S. subsidiary.

shared under the agreement "may not be made accessible to non-partner firms." *Id.* at 40a.

In late 1969, the secret Partners entered into a "Supplement" to the 1965 pooling agreement, which appears (in the original English) as Appendix G to this Petition. The Supplement provided that the 1965 agreement "will continue for the full duration of ten years," even though in 1969 the secret Partners were close to commercial production of rotor spinning machines. The Supplement also confirmed that "any information in the possession of any one Partner, including all design information and data, will be made freely available to the other Partners on request." The Supplement made no other changes to the 1965 agreement.

The intent of the Partners in the consortium established by the secret agreement was the subject of testimony at trial from Hans Stahlecker, President of Suessen Corporation, a supplier of component parts to Schlafhorst for its OE spinning machine. In 1975, Mr. Stahlecker met with Mr. Van Duitshuisen of Schubert & Salzer, who told him "plain and clear that the consortium consisting of Schubert & Salzer, Rieter and Platt had decided that they would keep the open-end business to themselves." J.A. 1731.[2]

The 1969 Patent Office Interference

The patent on which Schubert & Salzer based its suit against Schlafhorst resulted from a patent application filed in the United States Patent & Trademark Office (the "PTO") in 1967. Rieter, the Swiss member of the secret consortium, also filed a patent application in the PTO in 1967 for a similar invention. Both the Schubert & Salzer application and the Rieter application related to OE spinning technology and therefore were within the scope of the secret pooling agreement. In May 1969, the

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[2] "J.A." refers to the Joint Appendix filed in the Federal Circuit.

PTO declared an interference under § 135 (Appendix E) between the two applications. *See generally* M. Klitzman, *Patent Interference Law and Practice* xxiii (1984) ("An interference in the [PTO] or in the courts is a proceeding instituted to determine priority of invention between two or more applicants or applicants and patentees claiming substantially the same patentable invention.").

As a result of the interference, Schubert & Salzer and Rieter learned for the first time that each other had filed competing applications. Without revealing the secret relationship, Schubert & Salzer, rather than Rieter, advised the PTO that Rieter would terminate the interference by withdrawing the portion of its application that overlapped the Schubert & Salzer application. J.A. 2779. After two procedurally flawed attempts to end the interference in August and September 1969, Rieter finally successfully surrendered in December 1969, and the PTO formally terminated the interference early the next year.

Neither Schubert & Salzer nor Rieter filed the secret pooling agreement or the Supplement with the PTO.

The Jury Trial and the Magistrate's Decision

When Schubert & Salzer filed its complaint in December 1985, it demanded a jury trial. Well before trial, Schlafhorst moved for summary judgment on the ground that Schubert & Salzer's patent was unenforceable because the secret pooling agreement had not been filed with the PTO at the time the interference had been terminated, as required by § 135(c). The district court (Anderson, J.) denied Schlafhorst's motion, stating that because the question involved "[r]easons, motivations, purposes for that agreement . . . I could see where [Schlafhorst] could be right, but not on summary judgment. [Schlafhorst] could be right on directed verdict, if the facts are fully developed." J.A. 94. Later, as

the matter was nearing trial, both parties consented to trial before a Magistrate sitting with a jury.

Thereafter, with the approval of the Magistrate and based upon additional facts, Schlafhorst renewed its motion for summary judgment on the § 135(c) issue. Early in the trial, the Magistrate hearing argument on this motion questioned whether this issue involved any disputed facts: "Let's go back to whether its a jury issue or not. I don't think it is. Strictly a legal issue. There are no facts; there is a document. Whether it should have been filed or not is, I think, a legal issue. J.A. 559. Later that day, after hearing testimony from an official of Schubert & Salzer about the secret agreement, the Magistrate expressed the contrary view, saying "[the] more I hear, the more it becomes a factual issue." J.A. 729. The next morning the Magistrate denied the motion for summary judgment "at this time." In so doing, the Magistrate did not suggest that the jury would be advisory on the § 135(c) issue. J.A. 738.

At the close of Schubert & Salzer's evidence, Schlafhorst moved for directed verdict on the § 135(c) issue. Then, the Magistrate, in once again pondering whether the case should go at all to the jury, mentioned for the first time the possibility of an advisory jury. Schlafhorst did not object to the Magistrate's offhand remark because the focus of the entire colloquy was Schlafhorst's motion for a directed verdict under Rule 50(a).

At the close of Schlafhorst's evidence, Schubert & Salzer moved for a directed verdict on the § 135(c) issue. The Magistrate heard Schubert & Salzer's argument, and then stated "[i]t's going to the jury and I haven't decided whether it's going to be advisory or not." J.A. 1946. Schlafhorst argued that the issue *was* appropriate for directed verdict, but in its favor. In the context of the argument on Schubert & Salzer's motion for a directed verdict, the Magistrate stated:

> "[W]e don't know whether it should go to the jury; we don't know the burden of proof. I am going to send it to the jury just to protect ourselves so we don't have to retry the case, and I'll decide afterwards, if I have to. I may not have to. I hope they decide for me, let them decide. We'll send it to them advisory, that way we're all protected."

J.A. 1950.

The Magistrate charged the jury on the issues of validity, infringement, damages, and compliance with § 135(c). In explaining the special interrogatories to the jury, the Magistrate never suggested that the jury would be advisory on the § 135(c) issue, but instead emphasized the importance of the jury's deliberations: "I assure you you are the first jury to ever have to consider this issue [i.e., § 135(c)]. You'll go down in history. This will be a case will be referred to I'm sure, maybe be a big deal to you ten years from now—you are the first." J.A. 2079.

The actual interrogatory given to the jury set forth the text of § 135(c) and then asked:

> Has Defendant established by a preponderance of the evidence that Plaintiff exhibits 59 and 59A [the secret pooling agreement and its Supplement] should have been filed with the Patent Office pursuant to 35 U.S.C. § 235(c) [sic].
>
> Yes × No ——
>
> /s/ _____
> MITCHELL W. COPELAND,
> Foreman

App. C, at 32a.

Following publication of the verdict, Schubert & Salzer asked that the jury be polled on the § 135(c) interrogatory "to make certain they understand who they [are] ruling for." J.A. 2136. After the jury was polled, Schlafhorst moved for entry of judgment based on the jury's answer to the § 135(c) interrogatory. The Magis-

trate then stated: "We had an understanding at the beginning it was advisory." Schlafhorst replied: "Are you saying you haven't made up your mind on entering the verdict?," and the Magistrate answered "No, I haven't. I haven't." J.A. 2137. This colloquy appears as Appendix H to this Petition.

Schlafhorst formally moved for entry of judgment based on the jury's verdict that the secret pooling agreement and its Supplement should have been filed with the PTO. Respondent made no motion for judgment notwithstanding the verdict ("JNOV") under Rule 50 or for a new trial under Rule 59. On July 8, 1987, the Magistrate issued an Order (Appendix B), including findings of fact and conclusions of law, which disregarded the jury's verdict and instead found that the secret agreement and its Supplement "had no causal relationship to the interference proceedings." App. B, at 9a. The Magistrate quoted extensively from the trial testimony of Max Huttner, the head of Rieter's patent department (App. B, at 20a-23a), and expressly found "that Max Huttner's testimony that there was no agreement to end the interference is credible" (App. B, at 9a).

The Magistrate stated that the "advisory verdict was agreed to by both parties" (App. B, at 6a), but did not point to any place in the record that reflected such an agreement and did not discuss or cite Rule 39(a). Indeed, the record does not reflect any stipulation by either party consenting to a non-jury trial within the meaning of Rule 39(a). Despite the fact that his decision was based on factual findings including an express determination that the testimony of one witness was credible, he also inexplicably further stated that the § 135(c) issue was a "legal one only:"

> The question of whether the § 135(c) issue should be submitted to the jury or is an issue for the court's determination was resolved in this case by submitting

> the issue to the jury in an advisory role only. After attempting to draft proper instructions for the jury concerning § 135(c), this court concludes that the issue is a legal one only and not one for a jury. To attempt to instruct a jury as to the meaning of an interference and then to attempt to instruct them as to the application of § 135(c) defies the limits of common sense.

App. B, at 23a-24a n.12.

The Federal Circuit's Decision

On appeal, Schlafhorst challenged, *inter alia*, the Magistrate's decision that the secret pooling agreement was not subject to § 135(c) and his disregard of the jury's verdict to the contrary. Without any analysis, two judges[3] of the Federal Circuit affirmed the Magistrate's factual finding that there was no "causal connection" between the secret agreement and Rieter's termination of the interference. Furthermore, the judges held that Schlafhorst's failure to object to the Magistrate's musings regarding the role of the jury, and its arguments that the § 135(c) issue was one of law, amounted to a consent to a non-jury trial.

The two judges did not analyze Rule 39(a), and in paraphrasing that rule omitted the express requirement that any oral stipulation consenting to a non-jury trial be "entered in the record." Their opinion does not note that the Magistrate's actions with respect to the role of the jury were at best equivocal or that Schlafhorst's arguments that the § 135(c) issue was one of law were all made in the context of its motions for summary judgment or directed verdict on that issue. The judges did not discuss or cite Rule 50(a), which provides that motions for directed verdicts are not waivers of trial by jury.

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[3] Judge Davis, a member of the original panel, died following oral argument and took no part in the decision.

REASONS FOR GRANTING THE WRIT

A. This Petition raises two important federal questions, neither of which has been previously considered by this Court. First, this case presents the best possible context for this Court to examine the Federal Rules of Civil Procedure that protect the seventh amendment right to a jury trial. The facts here squarely present the question whether Rule 39(a) means what it says.

As discussed below in Section C, the Courts of Appeals have dealt with Rule 39(a), but have not developed a coherent answer to the question of whether one party by silence can lose its right to a jury trial where there has been a timely demand for a jury. This case includes the desirable circumstance that a jury actually heard the evidence and answered a special interrogatory on the § 135(c) issue. Thus, this case arises on the concrete fact that whether there is, or is not, a binding jury verdict is outcome determinative. Since this Court has not had occasion to interpret Rule 39(a), this case warrants the grant of certiorari.

Second, this case presents the question of which agreements relating to intellectual property rights must be submitted to the PTO pursuant to § 135(c) for review by the appropriate government agencies for antitrust violations. Given the dramatic increase in recent years of joint industrial research and development efforts, this case provides an important opportunity for this Court to examine the scope of § 135(c). Significantly, this case arrives in this Court on a full factual record, including both a jury verdict and a contrary bench opinion. None of the facts relating to the secret pooling agreement is in dispute. This Court's examination of this issue, therefore, would be fully informed (and also would likely be dispositive of this lawsuit).

B. The opinion below by two judges, *see* 28 U.S.C.A. § 46(b) and (d) (West Supp. 1988) (permitting a

"quorum" of two judges on a panel that has the required number of three judges), states that it was not prepared for publication "because it does not add significantly to the body of law and is not of widespread legal interest. . . . It is not citable as precedent." Such a statement is provided for by Rule 18(c) of the Rules of the Federal Circuit and is frequently appended to opinions of that court.

Petitioners cannot suggest that this case comes to this Court with the assistance of a well-reasoned opinion below that adequately analyzes Rule 39(a) and § 135(c). *Cf. Dennison Mfg. Co. v. Panduit Corp.*, 106 S. Ct. 1578 (1986) (granting certiorari and summarily remanding to the Federal Circuit for further consideration in light of Rule 52(a), which the Federal Circuit had not mentioned in its opinion). Nonetheless, the issues at stake here—contrary to the statement appended to the opinion below—warrant the grant of certiorari. How can it be asserted that the loss of a jury verdict in the teeth of Rule 39(a) is not of "widespread legal interest?" How can it be asserted that permitting the parties to a secret patent pool to continue to keep their partnership secret while appearing to terminate at arm's length a patent interference between them does not "add significantly to the body of law?"

C. Once a jury trial is demanded by either party under Rule 38(b), as it was in this case in Schubert & Salzer's complaint, the Federal Rules of Civil Procedure operate to avoid inadvertent loss of the right to a jury trial. *Cf. Aetna Ins. Co. v. Kennedy*, 301 U.S. 389, 393 (1937) (presumption against loss of right to jury). Rule 39(a) requires either a written consent by both sides to trial by the court sitting without a jury, or an oral stipulation made by both sides in open court and—this phrase was omitted by the Federal Circuit—"entered in the record." Rule 39(c) limits the use of advisory juries to actions "not triable of right by a jury." Finally, Rule 50(a)

provides that a party may argue that an issue is one of law in moving for a directed verdict *without* waiving trial by jury in the event the motion is denied.

In the workaday affairs of the district courts, the seventh amendment right to a jury trial hangs or falls by these rules. The questions at stake here have long percolated in the lower federal courts without the development of a consensus answer to the question of whether a party can lose its right to a jury trial without "an oral stipulation made in open court and entered in the record." *Compare United States v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 951 (4th Cir. 1985) (timely demand for jury trial may be waived by party's participation in bench trial without objection; citing cases); *Casperone v. Landmark Oil & Gas Corp.*, 819 F.2d 112, 116 (5th Cir. 1987) (same) *and United States v. Missouri River Breaks Hunt Club*, 641 F.2d 689, 693 (9th Cir. 1981) (district court's unequivocal statement in open court while dismissing the jury that both parties had agreed to bench trial constituted stipulation within meaning of Rule 39(a)) *with Zidell Exploration, Inc. v. Conval Int'l, Ltd.*, 719 F.2d 1465, 1469 (9th Cir. 1983) ("equivocal remarks" by counsel in reply to clear statement by court that trial to be non-jury are insufficient to waive right to jury trial); *Palmer v. United States*, 652 F.2d 893, 896 (9th Cir. 1981) (requiring adherence to "precise terms" of Rule 39(a); participation in bench trial, without more, is insufficient to show withdrawal of jury demand) *and DeGioia v. United States Lines Co.*, 304 F.2d 421, 424 n.1 (2d Cir. 1962) (party's "failure explicitly to urge its original [jury] demand" in response to trial court's statement that jury would be advisory was not a waiver of a binding jury).

This Court should examine this question, and this case is the best vehicle for doing so. Far from being an abstract or hypothetical point, in this case the acceptance

or rejection of the jury's verdict determines which party wins. Horace Rumpole's remark that "[a] trial without a jury is like an operation without anaesthetic, or a luncheon without a glass of wine," J. Mortimer, *Rumpole and the Dear Departed*, in *Rumpole For The Defence* 92 (1986), is particularly true here for Schlafhorst.

It is important to recognize that the Magistrate did not grant, and could not have granted, a JNOV under Rule 50. Schubert & Salzer never moved for JNOV, and because the Magistrate himself relied on what he saw as the "credibility" of a Rieter witness, JNOV was manifestly unavailable. *See Anderson v. Liberty Lobby, Inc.*, 106 S. Ct. 2505, 2513 (1986) ("Credibility determinations . . . are jury functions, not those of a judge . . ."); *Montgomery Ward & Co. v. Duncan*, 311 U.S. 243, 251 (1940) ("The motion for [JNOV] cannot be granted unless, as matter of law, the opponent of the movant failed to make a case and, therefore, a verdict in movant's favor should have been directed."); *Quaker City Gear Works, Inc v. Skil Corp.*, 747 F.2d 1446, 1453 (Fed. Cir. 1984) (district court "had to accept the jury's determination and could set it aside only if it were not supported by substantial evidence"), *cert. denied*, 471 U.S. 1136 (1985).

Four points show there was no stipulation by Schlafhorst (or Schubert & Salzer, for that matter) consenting to a non-jury trial on the § 135(c) issue:

1. Even after the jury was polled on the § 135(c) issue (at Schubert & Salzer's request), the Magistrate was still *equivocal* on whether the jury's decision on that issue was binding. Schlafhorst asked "Are you saying you haven't made up your mind on entering the verdict?," and the Magistrate replied "No, I haven't. I haven't." *See* App. H. The Magistrate's reply is inconsistent with any "agreement" that the trial of the § 135(c) issue should be non-jury.

2. Schlafhorst was *not* obligated to object to the Magistrate's vacillating statements on the role of the jury in order to preserve its right to a binding jury. *DeGioia v. United States Lines Co.*, 304 F.2d 421, 424 n.1 (2d Cir. 1962).

3. *Both* Schlafhorst and Schubert & Salzer moved for directed verdicts on the § 135(c) issue. In doing so, both parties argued that this issue was one of law for the Magistrate to decide, but Rule 50(a) explicitly states that such arguments do *not* waive the right to a jury trial. Indeed, since motions for directed verdicts before an advisory jury would be "charades," *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 895 n.5 (Fed. Cir.), *cert. denied*, 469 U.S. 857 (1984), these vigorously argued motions show there had been *no* agreement that the jury would be advisory.

4. Finally, the § 135(c) issue could *not* have been properly submitted to an advisory jury under Rule 39(c), because that issue is triable of right by a jury. It is an issue of fact and was so treated by both the Magistrate and the Federal Circuit. The Federal Circuit's disregard of the jury's verdict on the ground it was "advisory" reflected hopeless confusion about the Federal Rules of Civil Procedure.

The very failure of the lower federal courts here to analyze the applicable rules indicates the value of a decision by this Court. Because examination by this Court would make an important contribution to federal procedural law, this Court should grant certiorari.

D. During trial, the Magistrate characterized the effect of the secret pooling agreement as making the "Partners" in the consortium "[f]riendly enemies." Counsel for Respondent Schubert & Salzer responded, "[t]hey were friendly competitors, that's what the whole system is about." J.A. 553.

The issue here is whether Congress, in passing § 135(c), intended for an agreement that created "friendly competitors" in the context of an interference to be filed with the

PTO and made available to Government agencies as provided in the statute. *See* J. Davis, *Patent Licensing and the Anti-Trust Laws: Some Recent Developments*, 46 J. Pat. Off. Soc'y 12, 35 (1964) ("[§ 135(c)] thus provides the Justice Department and the FTC with easily obtainable evidence of illegal licensing activities, and discourages questionable activities ab initio").

There can be no doubt that in 1969, when Rieter ended the interference, the Justice Department would have been distinctly interested in the secret pooling agreement. In January of that year, the Department filed an injunctive action against a very similar patent and technology pool in the automotive industry. *United States v. Automobile Mfrs. Ass'n*, Civ. No. 69-75-JWC (C.D. Cal. Jan. 10, 1969); *see* 307 F. Supp. 617 (C.D Cal 1969), *aff'd mem.*, 397 U.S. 248 (1970). Just as with the secret pooling agreement here, that pool required its members to grant royalty free licenses to other members on any inventions within the scope of the agreement (which related to air pollution control). The Justice Department alleged that the pool eliminated the competitive incentives for independent research and development. That case resulted in a consent decree requiring each member to pursue its own research and development program. *Id.*; 1969 *Trade Cas.* (CCH) ¶ 72,907 (1969) (text of consent decree), *modified*, 1982-83 *Trade* Cas. (CCH) ¶ 65,088 (1982), *modification approved*, 1982-83 *Trade Cas.* (CCH) ¶ 65,175 (1982).

The economic rationale of the Justice Department's action against the pool in the *Automobile Manufacturers* case remains strong: patent and technology pools may eliminate competition without providing any of the possible benefits of a merger of the parties to the pool. W. Bowman, *Patent and Antitrust Law* 201 (1973) ("A pool of competing patents can be more readily analogized to a loose association than to a horizontal merger. . . . A pool of competing patents is difficult to distinguish from the cartel in this respect."). Indeed, this Court has

experience with illegal patent pools. *E.g.*, *Hartford-Empire Co. v. United States*, 323 U.S. 386, *clarified*, 324 U.S. 570 (1945).

The parties to the interference, Schubert & Salzer and Rieter, were both Partners in the secret pooling agreement, and therefore regardless of which Partner won the interference both would have the *royalty free* use of the invention while excluding all outsiders. The Partners communicated about the interference—it was, after all, Schubert & Salzer who told the PTO that Rieter would terminate the interference (J.A. 2779), and indeed the Supplement was executed at the same time Rieter was struggling to surrender in the interference (App. G). There was no need for Rieter to shadowbox with Schubert & Salzer when it really made no difference which of the secret Partners obtained the patent.

Had Rieter contested the interference with Schubert & Salzer, it might have obtained a patent on all or some portion of the invention that was the subject of the interference, and in that event Rieter *might* have licensed that patent to parties outside the secret consortium and collected royalties. (Rieter's secret Partners, of course, would automatically have the royalty free use of the patent.) In fact, however, Rieter had no incentive to litigate and would have had to obtain the consent of all the secret Partners to license such a patent outside the consortium. *See* App. F, § 7(b). That consent would not have been granted, because as Mr. Stahlecker testified, the consortium had "decided to keep the open-end business to themselves." In reality, therefore, Rieter lost nothing by abandoning the interference. Rieter would be covertly entitled to any patent that issued, interference or no interference.

Given these facts, it was not surprising that the jury concluded that the secret pooling agreement should have been filed with the PTO under § 135(c).

The lower courts have held that § 135(c) applies to any agreement between the parties to an interference that has a "causal connection" to the termination of the interference. *CTS Corp. v. Piher Int'l Corp.*, 727 F.2d 1550, 1556 (Fed. Cir.), *cert. denied*, 469 U.S. 871 (1984); *Moog, Inc. v. Pegasus Laboratories, Inc.*, 521 F.2d 501, 506 (6th Cir. 1975), *cert. denied*, 424 U.S. 968 (1976); *United States v. FMC Corp.*, 215 U.S.P.Q. (BNA) 43, 51-53 (E.D. Pa. 1982) (to have requisite causal connection, unfiled agreement must "affect the parties' motivation to litigate the inference"), *rev'd on other grounds*, 717 F.2d 775 (3d Cir. 1983); *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550, 562 (S.D.N.Y. 1967) (the unfiled agreement "for all practical purposes, made it improbable that the interference proceedings would or could be continued"), *aff'd*, 393 F.2d 321 (2d Cir. 1968).

The question that should be decided by this Court is whether a patent pooling agreement, which makes irrelevant the outcome of any interference between members of the pool, has a causal connection with a decision by a member to surrender in an interference with another member. The Federal Circuit answered no, but this decision is inconsistent with the important Congressional policy against collusive terminations of interferences that are contrary to the public interest. *See* Letter from Acting Deputy Attorney General Nicholas deB. Katzenbach to Rep. Emanuel Celler (April 30, 1962), *reprinted in* 1962 U.S. Code Cong. & Admin. News 3288-89 (urging passage of legislation that became § 135(c), noting that "[t]he purpose of this legislation is to make it more difficult for patent applicants to use an interference settlement agreement as a means of violating the antitrust laws," and citing *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 815-16 (1945)); *FMC Corp.*, 717 F.2d at 778-79 (reviewing legislative history); *see also* J. Davis *supra*, at 34 (agree-

ments terminating interferences "are an obvious potential source of trade restraint in violation of the antitrust laws," *citing United States v. Imperial Chem. Indus., Ltd.*, 100 F. Supp. 504 (S.D.N.Y. 1951)). The Federal Circuit's decision allows parties to patent pools to wrap a shroud of secrecy around their cartel, just as Rieter and Schubert & Salzer did here. Because an important Congressional policy is at stake, this Court should review the decision below.

CONCLUSION

For the reasons stated above, Petitioners ask that a writ of certiorari issue to the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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December 19, 1988
Charlotte, North Carolina

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

88-1036

SCHUBERT & SALZER MASCHINENFABRIK AKTIENGESELLSCHAFT,
Plaintiff-Appellee,

v.

W. SCHLAFHORST & CO., AMERICAN SCHLAFHORST COMPANY, and GREENWOOD MILLS, INC.,
Defendants-Appellants.

Decided: August 24, 1988

Before MARKEY, *Chief Judge,* DAVIS * and SMITH, *Circuit Judges.*

SMITH, *Circuit Judge.*

DECISION

W. Schlafhorst & Co., American Schlafhorst Co., and Greenwood Mills, Inc. (Schlafhorst), appeal the judgment, as finally amended, of the United States District Court for the District of South Carolina in *Schubert & Salzer Maschinenfabrik Aktiengesellschaft* v. *W. Schlafhorst & Co.*, Civil Action No. 6:85-3467-3K (D.S.C. July 10, 1987). We *affirm.*

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* Judge Davis, who died on June 19, 1988, took no part in the decision of this case.

OPINION

The district court's judgment, as finally amended, included both jury verdicts in favor of Schubert & Salzer Maschinenfabrik Aktiengesellschaft (Schubert) on the issues of patent validity, infringement, and damages and a decision by the magistrate, setting forth both findings of facts and conclusions of law, in favor of Schubert on the issues of equitable estoppel and compliance with the filing requirements of 35 U.S.C. § 135(c). On appeal, Schlafhorst raises five principal contentions.

First, Schlafhorst argues that the magistrate erred by refusing to enter judgment on the jury's verdict in favor of Schlafhorst on the section 135(c) issue and by substituting therefor, and entering judgment in favor of Schubert on, his own findings of facts and conclusions of law. Schlafhorst contends that Schubert entered a general demand for trial by jury at the time Schubert filed its complaint and that, in view of this demand, Schlafhorst was entitled to a jury trial on all issues. We disagree.

Rule 39(a) of the Federal Rules of Civil Procedure provides that, when requested pursuant to Fed. R. Civ. P. 38, a trial shall be by jury unless either (1) the parties consent by written stipulation filed with the court, or by oral stipulation made in open court, to trial by the court sitting without a jury or (2) the court determines there is no right to trial by jury. Here, Schlafhorst consented to trial by the magistrate on the section 135(c) issue. The magistrate repeatedly articulated his intention that he independently was going to decide the section 135(c) issue and that the section 135(c) issue was being sent to the jury in an advisory capacity only. Not only did Schlafhorst fail to object at trial to the magistrate's proposed treatment of the issue but, when questioned by the magistrate, Schlafhorst, in open court, consistently maintained the position that the section 135(c) issue was a legal issue not appropriate for resolution by a jury.

Second, Schlafhorst argues that the magistrate erred, as a matter of law, in reaching his conclusion on the merits of the section 135(c) issue. We disagree. The magistrate determined that there was no causal connection between either the 1965 consortium agreement or the 1969 supplemental agreement and the termination of the interference. Because Schlafhorst has not given us grounds to disturb this determination by the magistrate, we must affirm his decision on this issue. *See CTS Corp.* v. *Piher International Corp.*, 727 F.2d 1550, 1555-56, 221 USPQ 11, 15 (Fed. Cir.), *cert. denied*, 469 U.S. 871 (1984) ("Section 135(c) requires that any agreement or understanding made in connection with or in contemplation of the termination of an interference must be filed with the [United States Patent and Trademark Office].").

Third, Schlafhorst argues that the magistrate erred, as a matter of law, in reaching his conclusion that Schubert was not precluded by the doctrine of equitable estoppel from bringing this action against Schlafhorst. Schlafhorst contends that the magistrate misapplied the legal precedent on the issue. We disagree. The magistrate determined that, although Schlafhorst may have been prejudiced by Schubert's delay in bringing its action, Schlafhorst failed to establish that Schubert either abandoned its claims against Schlafhorst or induced Schlafhorst into thinking the same. Because application of equitable estoppel is predicated upon such a showing, *see Hottel Corp.* v. *Seaman Corp.*, 833 F.2d 1570, 1573, 4 USPQ2d 1939, 1941 (Fed. Cir. 1987), we cannot conclude that the magistrate's resolution of this issue is erroneous, as a matter of law. Schlafhorst's attacks on the magistrate's underlying factual findings on this issue are unpersuasive.

Fourth, Schlafhorst argues that the magistrate prejudiced Schlafhorst by excluding from the jury evidence of inconsistent positions taken by Schubert, and of rulings made by the German Federal Patent Court, during prosecution of Schubert's counterpart German patent applica-

tion. We are not persuaded. Under the law of the Fourth Circuit, which law controls this issue on appeal, exclusion of evidence is squarely within the discretion of the trial court. *See DeBenedetto* v. *Goodyear Tire & Rubber Co.*, 754 F.2d 512, 518 (4th Cir. 1985). Here, although evidence of proceedings before foreign tribunals may have some relevance to the issues in this case, Schlafhorst has not established that the magistrate abused his discretion by excluding this evidence.

Finally, Schlafhorst argues that the magistrate erred in instructing the jury on the reverse doctrine of equivalents. For us to disturb the jury's verdict on that issue, Schlafhorst has the burden of establishing that the error was so egregious, considering the instructions as a whole, as to require the verdict to be set aside. *Jamesbury Corp.* v. *Litton Industrial Products, Inc.*, 756 F.2d 1556, 1560, 225 USPQ 253, 256 (Fed. Cir. 1985). Schlafhorst failed to carry its burden on appeal.

APPENDIX B

Note: This opinion was modified by the Magistrate in respects that are insignificant to this Petition for certiorari.

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF SOUTH CAROLINA
GREENVILLE DIVISION

Civil Action No. 6:85-3467-3K

SCHUBERT & SALZER MASCHINENFABRIK AKTIENGESELLSCHAFT,
Plaintiff,

vs.

W. SCHLAFHORST & CO., AMERICAN SCHLAFHORST COMPANY, and GREENWOOD MILLS, INC.,
Defendants.

ORDER

[Filed July 8, 1987]

This matter comes before the court at this time on the defendants' renewed motion for directed verdict on the issue of equitable estoppel and on the defendants' motion to enter the advisory verdict of the jury as a final verdict on the merits.

The plaintiff, Schubert & Salzer Maschinenfabrik Aktiengesellschaft (SSI), has sued W. Schlafhorst & Company, American Schlafhorst & Co., and Greenwood Mills (Schlafhorst) on a claim for damages for patent infringement. The case came to trial on June 15, 1987. At the close of the trial, the jury awarded to the plaintiff $6.3 million in damages for the infringement of United States

Letters Patent No. 3,524,312 entitled "Method and Apparatus for Cleaning Rotary Spinning Chamber." The patent in suit was issued on August 18, 1970, to Hans Landwehrkamp and Franz Schreyer, who assigned the patent to the plaintiff.

Schlafhorst asserted throughout the course of the trial that the plaintiff was equitably estopped from claiming any relief under the patent in suit and that the patent is unenforceable due to the plaintiff's failure to file a consortium agreement and the supplement to this agreement entered into between SSI and two other corporations, Rieter and TMM (Platt), pursuant to the provisions of 35 U.S.C. § 135(c). The court suggested that the issue of the § 135(c) violation be submitted to the jury for an advisory verdict only. This advisory verdict was agreed to by both parties.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

After hearing and receiving the evidence, reviewing the exhibits and briefs of counsel, and studying the applicable law, this court makes the following findings of fact and conclusions of law. Federal Rules of Civil Procedure, Rule 52. To the extent that any findings of fact constitute conclusions of law, they are adopted as such. To the extent that any conclusions of law constitute findings of fact, they are so adopted.

1. The United States Patent Office issued United States Letters Patent 3,524,312 to Hans Landwehrkamp and Franz Schreyer on August 18, 1970, on a Method and Apparatus for Cleaning Rotary Spinning Chamber.

2. Schlafhorst introduced the "autocoro," the alleged infringing device at a textile show in Greenville, South Carolina, in the spring of 1978.

3. The plaintiff inspected this device and issued a press release charging Schlafhorst with infringement of another unrelated patent.

4. The defendants made substantial investments in the "autocoro" machine.

5. The plaintiff delayed bringing its infringement action for more than seven years.

6. The co-inventor of the patent in suit, Franz Schreyer, is too ill to testify.

7. The defendants have been prejudiced by the plaintiff's delay.

8. The plaintiff did not abandon its patent rights.

9. The plaintiff was not silent as to its patent rights.

10. The plaintiff did not engage in any misleading actvities as to its patent rights.

11. The plaintiff, SSI, and the defendant Schlafhorst entered into the "Rockford Settlement" agreement in 1982 in an effort to end various patent infringement litigation between both parties.

12. Dr. Ziechnaus of SSI tried to include in the settlement agreement the automation patents. This offer was specifically rejected by Dr. Paetzold of Schlafhorst.

13. Both SSI and Schlafhorst agreed to this court submitting the § 135(c) issue to the jury for an advisory verdict only.

14. In July 1967, the plaintiff filed a U.S. Application, Serial No. 655,906, claiming priority of a patent based on an application filed in Germany on August 11, 1966, No. SCH 39,387.

15. In August 1967, Rieter, a Swiss corporation, filed a U.S. Application, Serial No. 661,332, based on an Austrian application filed in August 1966, Serial No. A8043166, on the same invention.

16. In May 1969, the U.S. Patent Office declared interference number 96,857 between the two applications.

17. Rieter attempted to end the interference in October 1969.

18. Rieter was successful in ending the interference in early December 1969.

19. On May 18, 1965, Rieter, SSI, and TMM (Platt) entered into a consortium agreement to cooperate in the field of open-end spinning in an effort to develop this technology to an economically usable method.

20. Under the terms of the agreement, each partner agreed to exchange information and each partner had license to the patients and inventions of the other partner.

21. The contract had a term of ten years.

22. The three consortium members entered into a supplemental agreement on December 2, 1969, giving each partner free access to information in control of the other partner. The agreement still related to the construction of open-end machines.

23. Neither the original agreement nor the supplemental agreement referred to an interference proceeding in any manner.

24. TMM (Platt) signed the supplemental agreement on August 12, 1969.

25. Rieter signed the supplemental agreement on November 28, 1969.

26. SSI signed the supplemental agreement on December 2, 1969.

27. Rieter attempted to end the interference at least one month before the supplemental agreement was finalized.

28. In conceding the interference to SSI, Rieter lost possible royalty rights which were not shared under the consortium agreement.

29. The consortium agreement entered into between Rieter, TMM (Platt), and SSI in May 1965 had no causal relationship to the interference proceedings.

30. The supplemental agreement entered into between Rieter, TMM (Platt), and SSI between the dates of August 8, 1969, and December 2, 1969, had no causal relationship to the intereference proceedings.

31. Rieter conceded priority to SSI because they were aware that SSI had the earlier filing date and they could not win the interference.

32. In conceding priority to SSI, Rieter never entered into an agreement with SSI to end the interference.

33. The court finds that Max Huttner's testimony that there was no agreement to end the interference is credible.

EQUITABLE ESTOPPEL

The essential elements of equitable estoppel are:

(1) an unreasonable and inexcusable delay by the plaintiff in prosecuting its rights;

(2) the delay resulting in material prejudice to the defendant;

(3) the infringer establishing "representations or conduct [on the part of the patentee] which justify an inference of abandonment of the patent claim or that the plaintiff has induced the [alleged] infringer to believe that its business would be unmolested"; and

(4) the defendant acting upon such inference to his detriment.

Unlike the standard of proof for laches, prejudice or detriment to the infringer may not be established on the basis of a presumption arising from delay beyond the statutory period. Rather, actual prejudice or detriment

must be proved by the alleged infringer. *Olympia Werke Aktiengesellschaft v. Gen. Elec. Co.*, 712 F.2d 74 (4th Cir. 1983).

The district judge exercises his discretion in the laches and estoppel decision and his decision will be reversed only if clearly erroneous. To determine the point at which the delay period commences, one looks to the time the plaintiff knew or, in the exercise of reasonable diligence, should have known of the defendant's alleged infringing action. *B.W.B. Controls, Inc. v. U.S. Industries, Inc.*, 228 U.S.P.Q. 799 (E.D.L.A. 1985).

Some factors constituting prejudice are: (1) important witnesses dead, (2) memories of other witnesses dulled; (3) relevant records destroyed or missing, (4) heavy capital investment by defendant in facilities to expand production. *B.W.B. Controls, Inc., supra* at 812.

For the plaintiff's actions to be construed as misleading, the plaintiff must have made representations or engaged in conduct which justifies an inference of abandonment of the patent claim or a belief that the defendant's business would be unmolested. For silence to be an estoppel, some evidence must exist to show that the silence was sufficiently misleading to amount to bad faith. *B.W.B. Controls, Inc., supra* at 812.

Delay in Prosecution

On August 18, 1970, the United States Patent Office issued to Hans Landwehrkamp and Franz Schreyer United States Letters Patent 3,524,312 on a Method and Apparatus for Cleaning Rotary Spinning Chamber.[1] In the spring of 1978 at a textile show in Greenville, South Carolina, Schlafhorst introduced the "autocoro" machine containing the alleged infringing device. After the plaintiff inspected this device, they issued a press release charging Schlafhorst with infringement of an-

[1] See plaintiff's exhibit 7.

other patent unrelated to the patent in suit.[2] On December 26, 1985, SSI filed this action alleging patent infringement. The defendants allege that the delay between the time the plaintiff filed this action and the initiation of prosecution was unreasonable.

The most common way to prove prejudicial delay is to supply proof that, after the patentee has by its conduct justified an inference of abandonment of its patent claim or has led the defendant to believe its business "would be unmolested," the defendant has proceeded to make substantial investments in its business and that its business has grown extensively. *Olympia, supra* at 77.

Although the defendants can show substantial investments in the "autocoro," they cannot establish the inference of abandonment of the patent claim. This is a necessary element in proving abuse of process.

Material Prejudice

The defendants further assert that they have suffered considerable prejudice due to the plaintiff's delay in prosecuting its action. They assert that the co-inventor of the patent is too ill to testify and that Schlafhorst has expended considerable sums in production and promotion of the "autocoro" machine.[3] Indeed, the defendants have shown an essential element of the prejudice argument; however, the demonstration of unreasonable delay or under prejudice does not end the inquiry.

Inference of Abandonment

The defendants must show that, through the plaintiff's representations or conduct, abandonment of the patent can be inferred by the infringer or that the plaintiff has induced the infringer to believe that his business will be unmolested. In addition, the defendants must show

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[2] See defendants' brief, page 63.

[3] See defendants' brief, page 68.

that they have acted upon such inference to their detriment.

An infringer cannot infer from the silence of a patentee that he approves of the infringer's activities. The infringer must show that the silence was sufficiently misleading to amount to bad faith. *B.W.B., Inc., supra* at 812.

The defendants cannot show that SSI abandoned its patent rights, that they were silent to these patent rights, or that they engaged in misleading activities. The very correspondence engaged in between the two companies refutes this contention.

In 1982, the companies entered into what has been termed the "Rockford Settlement" agreement. This settlement attempt was an effort to end the constant stream of litigation between both parties for various acts of infringement of the other's respective patents.[4]

During the course of these negotiations, Dr. Ziechnaus of SSI discussed including in the settlement agreements the automation patents (which presumably included the Landwehrkamp patent, the patent in suit, since it is an automation patent).[5] Dr. Paetzold of Schlafhorst specifically informed Dr. Zeichnaus by letter that he would not include the automation patents in the settlement agreement.[6]

Therefore, the court believes it unlikely that these two companies, who are fierce competitors and very knowledgeable of each others' intellectual property rights, were not aware that one of the automation patents referred to by Dr. Zeichnaus included the Landwehrkamp automated rotary cleaning device.

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[4] See plaintiff's exhibits 71 through 79.

[5] See plaintiff's exhibits 71, 73, and 76.

[6] See plaintiff's exhibit 76.

Although SSI may have delayed in bringing this action (whatever the motive) to the prejudice of the defendants, Schlafhorst cannot show an abandonment of the patent or a misleading act on the part of the plaintiff.

INTERFERENCE

Title 35, United States Code, § 135(c) provides as follows:

> (c) Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding.

At the conclusion of the trial on the merits of the case, this court submitted to the jury a special interrogatory for an advisory verdict only as to whether Schubert and Salzer had failed to comply with the statutory provisions of § 135(c). The jury returned a verdict finding that

the plaintiff had violated the statute. At that point, the defendants moved to have the advisory verdict entered as a final judgment on the issue. This is the issue now facing the court.

On July 25, 1967, the plaintiff filed U.S. Application Serial Number 655,906 claiming priority of a patent based on application SCH 39,387 filed in Germany on August 11, 1966. This application resulted in the issuance on August 18, 1970, of U.S. Patent No. 3,524,312. In August 1967, Rieter, a Swiss corporation, filed a U.S. Application, Serial Number 661,332, based upon an Austrian application, No. A8043166, filed in August 1966 on the same invention.

Therefore, in May 1969, the U.S. Patent Office declared Interference No. 96,857 between the two applications. Rieter terminated the interference by withdrawing ts claim.

The defendants assert that the plaintiff failed to comply with § 135(c) by failing to file two agreements with the patent office, thereby rendering the patent itself unenforceable. More specifically, the defendants assert as follows:

> Both Huttner and Canzler (and plaintiff) steadfastly maintain that there was no agreement between the parties to terminate the interference and that Rieter capitulated because it determined that it could not prevail in the interference. But these assertions simply skirt and ignore the real issue. The point is that Schubert & Salzer and Rieter *did not need* a specific agreement to terminate the interference, because they already had in place a more comprehensive agreement (the consortium agreement and its supplement) which obviated the necessity for a specific agreement. This broader agreement admittedly gave Schubert & Salzer and Rieter everything they could possibly want in connection with the settlement

of the interference—the free right of use of each other's patent rights being contested. Manifestly, therefore, the consortium agreement was the type of agreement which should have been filed under Section 135(c).[7]

Standard of Proof

The first issue facing this court is what standard of proof is necessary for the defendants to prove the plaintiff's failure to conform to the statutory mandates of 35 U.S.C. § 135(c). Regrettably, both the statute and the courts are silent as to this issue. This court must therefore turn to other law.

"The standard of proof is a crucial component of legal process, the primary function of which is 'to minimize the risk of erroneous decisions.'" *Santosky v. Kramer*, 455 U.S. 745, 758 (n. 9) (1982).

While private parties may be intensely interested in a civil dispute over money damages, the application of a "fair preponderance of the evidence" standard indicates society's minimal concern with the outcome and a conclusion that the litigants should share the risk of error in roughly equal fashion. *Santosky, supra* at 735.

The Supreme Court has mandated an intermediate standard of proof, "clear and convincing evidence," when the individual interests at stake in a state proceeding are particularly important and more substantial than mere loss of money. "Whether the loss threatened by a particular type of proceeding is sufficiently grave to warrant more than average certainty on the part of the fact-finder turns on both the nature of the private interest threatened and the permanence of the threatened loss. *Sontosky, supra* at 756, 758.

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[7] See defendants' renewed motion for summary judgment of patent unenforceability, at page 10.

In a typical civil suit for money damages, the plaintiffs must prove their case by a preponderance of the evidence. Where Congress has not prescribed the appropriate standard of proof and the Constitution does not dictate a particular standard, the standard must be judicially delimitated. *Herman & McLean v. Huddleston*, 459 U.S. 375, 387 (1983).

Proof by clear and convincing evidence is required when particularly important individual interests or rights are at stake, such as proceedings to terminate parental rights, involuntary commitment proceedings, and deportation. In contrast, imposition of even severe civil sanctions that do not implicate such interests has been permitted after proof by a preponderance of the evidence, such as civil suits involving proof of acts that expose a party to a criminal prosecution and sanctions imposed in a proceeding including an order permanently barring an individual from practicing his profession. *Herman, supra* at 389, 390.

In federal courts, causes of action for securities fraud, anti-trust or civil rights law require proof by a preponderance of the evidence. *Herman, supra* at 390.

The plaintiff points to the case of *United States v. FMC Corp.*, 215 U.S.P.Q. 43, 51 (E.D.Pa. 1982), *rev'd on other grounds*, 717 F.2d 775 (3rd Cir. 1983), where the court enunciated its view that § 135(c) should be subject to a narrow interpretation. The court in *FMC* further relied upon the equitable principle that justice abhors a forfeiture. The plaintiff uses this case in support of its argument that the standard of proof should be "clear and convincing evidence."[8] However, the court in *FMC* was not addressing what the standard of proof should be; rather, they were interpreting the meaning of agreements made "in connection with or in contemplation of ending an interference." It was the *FMC* court's

[8] Oral argument at trial.

conclusion that these agreements should be subject to a narrow interpretation.

The plaintiff contends that the penalty for violating § 135(c) is a forfeiture of the patent. The primary and logical meaning of the word "forfeit" is "to lose." Forfeiture is the divestiture of property without compensation, in consequence of a default or an offense, and is a method deemed necessary by the legislature to restrain the commission of the offense and to aid in its prevention. The standard of proof in a forfeiture case is by a preponderance of the proof. 36 Am.Jur. 2d, Forfeitures and Penalties, §§ 1 and 42.

Under 35 U.S.C. § 135(c), the penalty for an inventor's failure to file agreements to end an interference is the unenforceability of the patent. The inventor does in fact forfeit a 17-year exclusive right to property. Therefore, the person asserting a violation of § 135(c) must prove this violation by a "preponderance of the evidence."

Violation of §135(c)

The final issue this court must address is whether the defendants have established a violation of 35 U.S.C. § 135 (c) by a preponderance of the evidence. Their contention is that Rieter and SSI ended the interference by an agreement they failed to file with the U.S. Patent Office.

On May 18, 1965, Rieter, SSI and TMM (Platt) entered into a consortium agreement wherein they resolved to cooperate in the field of open-end spinning in an attempt to develop open-end spinning to an economically usable method. The agreement basically consisted of an exchange of information where each partner had license to the patents and inventions of the other partner. The contract had a term of ten years. On December 2, 1969, the three consortium members entered into a supplemental agreement concerning the construction of the open-end machines and giving each partner free access

to all information in the control of the other partner. Nowhere in either agreement was an interference mentioned.

The defendants point to the consortium agreements entered into between Platt, Rieter, and SSI as being violative of § 135(c).

The first agreement, dated May 18, 1965, was entered into more than four years before the interference was declared.[9] The second agreement was entered into between August 1969 and December 2, 1969. Platt signed the agreement on August 12, 1969, Rieter on November 28, 1969, and SSI on December 2, 1969.[10]

On October 13, 1969, Rieter filed its initial disclaimer pursuant to Rule 262. After communication from the patent office concerning the form of their disclaimer, Rieter corrected this form and mailed it back to the patent office on December 3, 1969.[11]

The defendants cite *Old Dominion Box Company v. Continental Can Company*, 273 F.Supp. 550 (S.D.N.Y. 1973), in support of their position. In *Old Dominion*, the court found a violation of 35 U.S.C. § 135(a), despite the fact that the agreement in question made no specific reference to ending the interference. The determining factor for the District Court was the fact that on the very day the parties signed the agreement, Continental wrote Federal (the other party to the interference) with regard to terminating the interference, which was accomplished. *Old Dominion*, *supra* at 562. The defendants cite the facts of *Old Dominion* as being "strikingly similar" to the fact of this case. However, there are major distinctions. As stated previously, in *Old Dominion* the subject agreement was entered into on the very day the inter-

[9] See plaintiff's exhibit 59.

[10] See plaintiff's exhibit 59(a).

[11] See deposition of Max Huttner, pp. 24-30.

ference was ended. In the present situation, the supplemental agreement was being negotiated through the periods of early August to early December 1969. The interference was declared in May 1969. Rieter attempted to end the interference in October of that year, at least one month before the supplemental agreement was finalized. It seems logical, as in *Moog Incorporated v. Pegasus Laboratories, Inc.*, 521 F.2d 501 (6th Cir. 1975), that if the parties to the consortium agreement intended to end an interference they would have insured that the interference was in fact ended before binding themselves to the terms of the agreement.

The defendants further argue that in conceding priority to SSI, Rieter lost nothing because under the consortium agreement they still had free use of the Landwehrkamp patent. What the defendants ignore, however, are the considerable royalty rights lost by Rieter in capitulating to SSI. Royalties were not shared under the agreement.

Also, the supplemental agreement was entered into by Rieter, Platt and SSI, the same parties to the consortium agreement. Platt had no interest in the interference; therefore, if the intent of Rieter and SSI was to end an interference, it was totally unnecessary to include Platt in the negotiations. The supplemental agreement simply reiterated an already existing and valid agreement which dealt mainly with open-end spinning.

Moog, supra, is another case in which the court found a violation of § 135(c). In *Moog*, the court found that:

> . . . there was an understanding between Moog and Bell as of February 25, 1965, that such a modification of the 1964 agreement was to be made *prior* (emphasis added) to the filing of the parties' concessions of priority. . . . this understanding was a *condition precedent* (emphasis supplied) to the filing of those concessions, which was in turn a *condition*

precedent (emphasis supplied) to termination of the interferences. *Moog, supra* at 504.

The facts in *Moog* are also distinguishable from those in the present case. In *Moog*, the parties had filed a previous agreement with the patent office wherein they granted cross-licenses to each other. However, later Moog and Bell negotiated another agreement which revoked their previously filed agreement. This agreement was executed well before the date the Patent Office terminated the interference on May 11, 1965, but the agreement was not filed until January 11, 1966. *Moog, supra* at 505.

Here, the plaintiffs never filed their first agreement and the licenses were granted more than four years before the interference was declared. Further, the parties to the agreement attached no conditions subsequent or precedent to its performance, especially as it relates to an interference. The deposition of Max Huttner, head of Rieter's patent department from 1954 until 1980, illustrates that there was no agreement to end the interference. His testimony consisted of the following pertinent passages:

Q. Do you recall that an interference was declared between the applications of Mr. Landwehrkamp and Mr. Schiltknecht in the United States Patent Office?

A. Yes.

* * * *

Q. But yet on August 8, 1969, or about August 8, 1969, or earlier, perhaps July 28, 1969, as reflected on page 43, you actually cancelled three claims after the declaration of interference involving only claim 33. Do you see that?

A. Yes.

Q. Do you recall why you cancelled claims in addition to the claim that was actually in interference?

A. There was the danger of rejection based on the fact that claim 33 and 21 and 20 were in the application; therefore, I must have instructed our attorneys to withdraw these claims.

Q. Why did you choose to cancel those claims after you received the notice of interference?

A. From what I have seen on these two exhibits, 15 and 18, the Rieter application could claim a priority of August 24, '66, and the Landwehrkamp application claimed a priority of August 11, 1966. It indicates that we were the junior party.

Q. Before you took this act effecting cancellation of claims 20, 21 and 33 in the Schiltknecht application do you recall having any discussions with anyone from Schubert and Salzer?

A. No.

* * * *

Q. Next paragraph [defendant's exhibit 21, page 5], it says, "Rieter terminated the above interference to avoid incurring the expense of pursuing an interference which it believed it could not win." Is that statement true?

A. This is true.

Q. Why did you believe Rieter couldn't win the interference?

A. Because we were the junior party and we could only rely on the priority date. We didn't have any facts confirmed in the United States which would enable us to swear back.

Q. Looking at paragraph 6, it states, "No agreement or understanding existed between Rieter and Schubert and Salzer Maschinenfabrik Aktiengesellschaft that was made in connection with or in con-

templation of the termination of the above interference." Is that statement correct?

A. This is correct.

Q. So Rieter and Schubert and Salzer, to my understanding, did not have an agreement that was made to terminate the interference?

A. Yes.

Q. In paragraph 8 it says, "I telephoned Mr. Canzler of Schubert and Salzer as a courtesy to inform him that Rieter had decided to terminate the above interference." Is that statement correct?

A. Yes.

* * * *

Q. I'd like you to make it clear. Was that an agreement between Schubert and Salzer and Rieter to terminate the interference that we have been discussing?

A. There was no agreement.

* * * *

Q. When did you decide to terminate the interference?

A. I decided to terminate the interference when I got the communication from the Patent Office that one claim, namely 33, has been declared as a count in the interference.

Q. And that was in May of 1969?

A. Yes.

Q. So you phoned Mr. Canzler immediately after you received that notification?

A. No. I phoned Mr. Canzler when I mailed the instruction to our attorneys in America.

Q. I see. And did you tell Mr. Canzler why you had done that?

A. Yes. I told him that I didn't see any reason to continue the interference due to the expenses that would be caused, because we would be the losing party anyway due to the fact that we could rely only on a later application date.

(Deposition of Max Huttner taken March 30, 1987, pp. 19, 22-23, 32, 35-36, 37.)

In *CTS Corp. v. Piher Intern. Corp.*, 727 F.2d 1550, 1556 (Fed. Cir. 1984), the court held that there must be a causal relationship between the agreement and the termination of the interference. The language of the statute demands some definite link between the settlement of an interference and the agreement or understanding. *Moog, Inc. v. Pegasus Laboratories, Inc.*, 376 F.Supp. 439 (E.D. Michigan, S.D. 1983).

In *CTS*, the circuit court, adopting the district court's rationale, held that the fact that the settlement agreement referred to the interference does not mean that it is a document terminating the interference as a matter of fact. The court found that there was no bilateral understanding between the parties that the termination of the interference was part of the consideration for the settlement. Further, *FMC* holds that 35 U.S.C. § 135(c) must be narrowly construed. *United States v. FMC Corp.*, *supra* at 51.

ORDER FOR JUDGMENT

Based on the foregoing, the Clerk is directed to enter judgment in favor of the plaintiff on the issue of equitable estoppel and the issue of § 135(c) compliance.[12]

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[12] The question of whether the § 135(c) issue should be submitted to the jury or is an issue for the court's determination was resolved in this case by submitting the issue to the jury in an advisory role only. After attempting to draft proper instructions for

IT IS SO ORDERED.

/s/ William M. Catoe, Jr.
WILLIAM M. CATOE, JR.
UNITED STATES MAGISTRATE

July 8, 1987

Greenville, South Carolina

NOTICE OF RIGHT TO APPEAL

The parties are hereby advised that any appeal from this decision will be taken to the Fourth Circuit Court of Appeals by filing a notice of appeal with the Clerk of the U.S. District Court. Any such notice must be filed with the Clerk of the District Court within sixty (60) days after the date the order is filed.

A TRUE COPY

ATTEST: ANN A. BIRCH
Clerk

By: /s/ Kieron Campbell
Deputy Clerk

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the jury concerning § 135(c), this court concludes that the issue is a legal one only and not one for a jury. To attempt to instruct a jury as to the meaning of an interference and then to attempt to instruct them as to the application of § 135(c) defies the limits of common sense.

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF SOUTH CAROLINA
GREENVILLE DIVISION

C.A. 6:85-3467-3

SCHUBERT & SALZER MASCHINENFABRIK
AKTIENGESELLSCHAFT,
Plaintiff,

—VS—

W. SCHLAFHORST & CO., INC.,
AMIERICAN SCHLAFHORST & CO., INC.,
and GREENWOOD MILLS, INC.
Defendants.

VERDICT

[Filed June 26, 1987]

1. We, the jury find:

	Infringed	Not Infringed
Independent Claim 1	✓	———
Dependent Claim 2	✓	———
Dependent Claim 4	✓	———
Independent Claim 5	✓	———
Dependent Claim 6	✓	———
Dependent Claim 7	✓	———
Independent Claim 9	✓	———
Dependent Claim 10	✓	———
Dependent Claim 11	✓	———
Dependent Claim 12	✓	———
Independent Claim 14	✓	———

	Infringed	Not Infringed
Independent Claim 15	✓	———
Dependent Claim 16	✓	———
Dependent Claim 17	✓	———
Dependent Claim 18	✓	———

/s/ Mitchell W. Copeland
MITCHELL W. COPELAND
Foreman

A TRUE COPY
ATTEST: ANN A. BIRCH
Clerk

By: /s/ Kieron Campbell
Deputy Clerk

2. We, the Jury find:	Invalid Obvious	Valid Nonobvious
Independent Claim 1	✓	———
Dependent Claim 2	✓	———
Dependent Claim 4	———	✓
Independent Claim 5	———	✓
Dependent Claim 6	———	✓
Dependent Claim 7	———	✓
Independent Claim 9	———	✓
Dependent Claim 10	———	✓
Dependent Claim 11	———	✓
Independent Claim 12	———	———
Independent Claim 14	✓	———
Independent Claim 15	✓	———
Dependent Claim 16	———	✓
Dependent Claim 17	———	✓
Dependent Claim 18	———	✓

/s/ Mitchell W. Copeland
MITCHELL W. COPELAND
Foreman

3. If you find by a preponderance of the evidence that Plaintiff is entitled to damages for patent infringement as a result of sales of infringing devices by Schlafhorst in the period of December 26, 1985 to June 12, 1987, what damages do you find would have resulted?

Six Million Three Hundred Thousand & $\frac{\text{No}}{100}$

($6,300,000.00) Dollars.

/s/ Mitchell W. Copeland
MITCHELL W. COPELAND
Foreman

4. If you have found that any claim of the Landwehrkamp patent in suit has been infringed by Defendants, do you find that Schubert & Salzer has established by clear and convincing evidence that such infringement as willful?

Yes ——— No ✓

/s/ Mitchell W. Copeland
MITCHELL W. COPELAND
Foreman

5A. Do you find from a preponderance of the evidence that Plaintiff has abused the process of this Court?

Yes ——— No ✓

5B. If so, do you find that Defendants are entitled to recover compensatory damages?

Yes ——— No ✓

5C. If you answered "yes" to question 5B above, do you further find that Plaintiff acted in reckless disregard for the rights of the Defendant.

Yes ——— No ✓

If yes to 5C, what amount of punitive damages should be awarded?

——— 0 ———($ 0) Dollars.

/s/ Mitchell W. Copeland
MITCHELL W. COPELAND
Foreman

6A. 35 U.S.C. § 135(c) provides:

> Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference of any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding.
>
> The Commissioner shall give notice to the parties or their attorneys of record, a reasonable time prior to said termination, of the filing requirement of this section. If the Commissioner gives such notice at a later time, irrespective of the right to file such agreement or understanding within the six-month period on a showing of good cause, the parties may file such agreement or understanding within sixty days of the receipt of such notice.

6B. Has Defendant established by a preponderance of the evidence that Plaintiff exhibits 59 and 59A should have been filed with the Patent Office pursuant to 35 U.S.C. § 235(c).

Yes ✓ No ———

/s/ Mitchell W. Copeland
MITCHELL W. COPELAND
Foreman

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

88-1036

SCHUBERT & SALZER MASCHINENFABRIK AKTIENGESELLSCHAFT,
Plaintiff-Appellee,

v.

W. SCHLAFHORST & CO., AMERICAN SCHLAFHORST COMPANY, and GREENWOOD MILLS, INC.,
Defendants-Appellants.

Before MARKEY, *Chief Judge*, DAVIS* and SMITH, *Circuit Judges.*

ORDER

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and same hereby is denied.

The suggestion for rehearing in banc is under consideration.

FOR THE COURT:

/s/ Francis X. Gindhart
FRANCIS X. GINDHART
Clerk

10/12/88
Date

cc: Charles B. Park, III
Julian Dority

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* Judge Davis, who died on June 19, 1988, took no part in the decision of this case.

APPENDIX E

INTERFERENCE STATUTE

§ 135 Interferences

(a) Whenever an application is made for a patent which, in the opinion of the Commissioner, would interfere with any pending application, or with any unexpired patent, an interference may be declared and the Commissioner shall give notice of such declaration to the applicants, or applicant and patentee, as the case may be. The Board of Patent Appeals and Interferences shall determine questions of priority of the inventions and may determine questions of patentability. Any final decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent and Trademark Office of the claims involved, and the Commissioner may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved in the patent, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation by the Patent and Trademark Office.

(b) A claim which is the same as, or for the same or substantially the same subject matter as, a claim of an issued patent may not be made in any application unless such a claim is made prior to one year from the date on which the patent was granted.

(c) Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government

agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding.

The Commissioner shall give notice to the parties or their attorneys of record, a reasonable time prior to said termination, of the filing requirement of this section. If the Commissioner gives such notice at a later time, irrespective of the right to file such agreement or understanding within the six-month period on a showing of good cause, the parties may file such agreement or understanding within sixty days of the receipt of such notice.

Any discretionary action of the Commissioner under this subsection shall be reviewable under section 10 of the Administrative Procedure Act.

(d) Parties to a patent interference, within such time as may be specified by the Commissioner by regulation, may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9 to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Commissioner, and such award shall, as between the parties to the arbitration, be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Commission from determining patentability of the invention involved in the interference.

35 U.S.C.A. § 135 (West 1984 and Supp. 1988).

APPENDIX F

Agreement about common development of open end spinning between Maschinenfabrik Rieter A.G., Winterthur, and Deutscher Spinnereimaschinenbau Ingolstadt, and TMM (R) Ltd., Helmshore, Lancs, England.

On the occasion of the conference of 12.1.1965 the representatives of the three firms aforesaid exchanged a number of items of information about OE spinning and resolved to cooperate further in this field and to try jointly to develop OE spinning up to an economcally usable method. As the basis of this cooperation the following agreement were come to, to observance of which the three firms mutually bind themselves:

1. *Extent of the technical cooperation*

The cooperation concerns the technical development of a method of open-end spinning, starting from a material feed for a spinning machine as at present known *inclusive of the formation of a yarn body.*

2. *Exchange of information*

Each of the three partners must disclose to the others his present knowledge and experience in the field of OE spinning. All information disclosed in this way must be treated as strictly confidential and may not be made accessible to outside parties unless this information has become generally known. The fact of common development in the field of OE spinning is to be kept secret from outsiders.

3. *Kind of exchange*

In order to achieve the purpose of the Agreement a periodic exchange of experience shall take place. Each partner must from time to time report to the others about results of his own research and development in this

field as well as any additional knowledge and experience which he has acquired. For this purpose the partners shall also hold conferences of their technical representatives at regular intervals. The latter shall come together in the research centres of each of the parties in turn and the host partner shall disclose all of the particulars, inclusive of installations, mechanisms, prototype machines, etc., of the work he has carried out as well as his activity taking place at that time. At each conference the other partners shall submit reports, drawings and samples, etc., of the work which they have carried out since the previous session. If as appears advantageous only three or four sessions of this kind take place in each year, interim reports in the form of circulars shall be made between the sessions in order to ensure prompt exchange of items of information. The partners shall likewise report to one another about information obtained from outsiders.

4. *Laying down of the programme of research.*

The parties after the conclusion of this agreement and after that from time to time shall lay down for each partner the programme of the common research and development as well as the development work to be carried out in a certain period by each individual partner. But each partner remains free beyond that to undertake at any time pertinent research and development if he believes that by such a contribution the common target can be reached more quickly.

5. *Costs of the development.*

Fundamentally each partner shall bear his development costs himself. In laying down the development work to be carried out attention must be paid to the outlay demanded of each partner being about equally large. If development work should be decided upon, which demands extraordinary outlay by one partner, a special agreement

is to be effected as to how the costs are to be shared. For research or development orders which because of a common decision are placed with outside institutions, e.g. "outside" a research institute, the three partners shall answer for equal shares.

6. *Patent rights*

a) Each partner shall apply for patent rights upon inventions which he himself has invented or acquired, in his own Country at his own expense (Priority Application) and apprize the other partners of it directly afterwards. Six months before the expiry of the year of priority the partners shall agree in which Countries equivalent applications shall be carried out. The costs of these commonly decided applications shall be borne in common in equal shares.

But each partner is at liberty to procure patent protection at his own expense in any number of additional Countries. But he must apprize the other partners of these additional applications. The partner concerned shall himself answer for the costs of these additional applications.

c) If a number of partners participate in one invention, this invention shall be filed at joint expense. The partners shall agree under which name the patenting has to be effected, since it appears inexpedient to reveal outwardly the cooperation of the partners by naming several Applicants.

7. *Licences*

a) Any inventions, whether patented or not and any non-patentable "know-how" in this field, which has been invented by any one of the parties, must be made available to all parties licence-free for commercial utilization.

b) Intellectual property in the possession of the three partners may only be disposed of with the consent of all of the partners.

c) If one of the partners gets offered by an outside party a patent of a licence right in the field of open-end spinning, he shall without delay notify the other members of this offer. If the three partners are interested in acquisition of the aforesaid right, the partner to whom the right was offered shall strive to the best of his ability to acquire or to secure the right for the other partners.

d) Licence contracts existing at conclusion of the (present) contract shall be brought to the knowledge of the partners and in the event that unanimity prevails to continue the contracts, all of the partners shall share equally in the costs proceeding from the continuance of the licence contracts in question, which fall due after the conclusion of the present contract.

e) License fees payable to third parties or legal compensation to employee—inventors which fall due, to the extent that the amount can be apportioned according to the level of the deliveries by the individual partners shall be borne by the partners proportionately. If there is no such possibility the partners shall agree upon another way of doing it.

8. *Term of contract, dissolution of the contract.*

The contract is being concluded for a term of 10 years. If the aim of the contract is not achieved by this time the partners shall make up their minds whether and how long the contract shall be prolonged. If the aim of the contract according to mutual opinion is achieved before the expiry of the contract term, the contract is considered as terminated. The partners shall obtain information six months previously about the delivery to customers for the first time of machines which have appeared from the common development.

After termination or respectively expiry of the contract the right belongs to each partner to make use himself of all of the patent rights and all of the "know-how" for

open-end spinning under the same conditions as are laid down in the contract. This intellectual property may not be made accessible to non-partner firms.

9. *Court of arbitration*

Any disputes resulting from the present contract shall be decided finally to the exclusion of the regular courts, according to the Deeds-of-Arrangement and Arbitration Statute of the International Chamber of Commerce in Paris by one or more arbitrators appointed in accordance with this statute. In particular this court of arbitration shall be able to be called upon in the case of non-fulfilment of the contractual obligations by a partner during and after expiry of the contract.

10. *Intellectual property*

Under the term "intellectual property" in this agreement shall be understood, e.g., inventions, patents, samples and models (designs), drawings, trademarks, trade secrets, know-how, copyrights, etc.

(Signatures)

Ingolstadt, 18th May 1965

APPENDIX G

SUPPLEMENT TO THE AGREEMENT OF 18TH MAY 1965, between MASCHINENFABRIK RIETER A.G., WINTERTHUR and DEUTSCHER SPINNEREIMASCHINENBAU INGOLSTADT, INGOLSTADT, and T.M.M. (R) LTD., HELMSHORE, LANCS, ENGLAND.

The Agreement on the mutual development of Open-end Spinning dated the 18th May 1965 and signed by the three Partners referred to above is supplemented by the following points which now become integral parts of the Agreement.

1. The three Partners are now intending to commence the construction of Open-end Spinning Machines which will eventually be available for sale to customers. Each Partner will design and construct a machine which he himself considers to be the best for his own particular purposes. It is, however, agreed that any information in the possession of any one Partner, including all design information and data, will be made freely available to the other Partners on request.

2. It is agreed by all three Partners that the May 1965 Agreement will continue for the full duration of ten years (see Clause 8), that is to say the Agreement will expire on the 18th May 1975. It is agreed, however, that two years before the expiry date the three Partners will mutually examine whether and in what form the present Agreement shall be extended beyond the expiry date of May 1975.

DEUTSCHER SPINNEREIMASCHINENBAU
INGOLSTADT

/s/ [Illegible]

Date: Dec. 2, 1969

T.M.M. (RESEARCH) LTD., HELMSHORE

/s/ [Illegible]

Date: 8-12-69

MASCHINENFABRIK RIETER A.G.,
WINTERTHUR

/s/ [Illegible]

Date: Nov. 28, 1969

APPENDIX H

COLLOQUY

* * * *

[10-28] MR. DORITY: May I have the jury polled on 135 (c) to make certain they understand who they ruling for?

THE COURT: As to who they ruling for?

MR. PARK: Your Honor, is that proper?

THE COURT: Advisory only, remember?

MR. DORITY: Excuse me?

THE COURT: Advisory verdict only.

MR. DORITY: Can I have the jury polled?

THE COURT: What would I ask. They reached a verdict on it, I can ask. Poll as to that, whether that is their verdict or not.

THE CLERK: Ladies and gentlemen, as I call you name, just state whether that was your verdict on the last question of the verdict.

(The jury was polled individually and all affirmed the verdict as published.)

MR. DORITY: Thank you, Your Honor.

THE COURT: All right, any of you have any question, what went on anything, dying to know that we never told you?

JUROR: How long did we — were we in there all total?

[10-29] THE COURT: Nine hours. All right. Thank you, very much. Your checks will be mailed to you. If you have any problems, go by the clerks office and they'll straighten out any problems.

FOREMAN: I have one last question. Does the Court feel time we spent in there too long, too short?

THE COURT: It was about right. By the questions you asked starting off with, you impressed me you knew what you were doing. Thank you very much.

(Jury dismissed.)

MR. PARK: Your Honor, we move entry of jury's verdict on the last issue.

MR. DORITY: Your Honor, we would be filing motions on that.

THE COURT: We had understanding at the beginning it was advisory. It's a very close question. I was going to arrive at a decision, determination under any circumstances, whether for the plaintiff or for defendant. So I'll include it in my order on estoppel and I'll give you the courtesy of giving you a telephone call when I file the order, so that—

MR. PARK: Are you saying you haven't made up your mind on entering the verdict?

THE COURT: No, I haven't. I haven't.

MR. PARK: And you not entering any verdict until [10-30] you enter it on Monday.

THE COURT: I'm going to enter a written order. I think it's that important, to be done right.

MR. DORITY: Then we have ten days to file our motions after receiving.

THE COURT: Yes.

MR. DORITY: How about July 4th, can we get—

THE COURT: I'll give you as much time as you want.

MR. DORITY: We got a lot of family vacations scheduled.

THE COURT: All right.

MR. PARK: So the order will be entered on Monday.

THE COURT: I'm going to try to. I tell you what, I'll call you. I've got another trial starting Tuesday, so I'm kind of pushed for time. And I want to make sure I do this one right, since this is first impression case and one on estoppel also. Both issues very close, we writing the estoppel one now.

MR. PARK: Of course, Your Honor, the jury verdict on 135 (c) is just, would be duplicate of estoppel.

THE COURT: Certainly, I understand that.

MR. TURNER: My brief will be over here about 4:00 oclock.

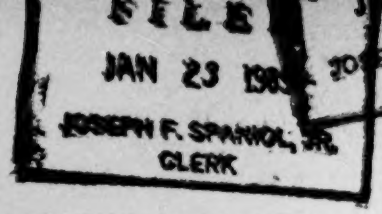
THE COURT: Any additional information you want to [10-31] submit I don't really have, I will be glad to look at, not closing the door putting any time limit on that. I think both issues very, very close. Anybody got anything else want to put on the record?

MR. PARK: No, Your Honor.

MR. DORITY: No, Your Honor, thank you, sir.

THE COURT: We have any conflict, I didn't even look to see on, no, we don't. Okay, thank you again, you all of you did an excellent job.

* * * *



No. 88-1020

IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

W. SCHLAFHORST & CO.,
AMERICAN SCHLAFHORST COMPANY
and GREENWOOD MILLS, INC.,
Petitioners,

v.

SCHUBERT & SALZER
MASCHINENFABRIK AKTIENGESELLSCHAFT,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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QUESTIONS PRESENTED

The Petition manifests its weakness when Petitioner Schlafhorst strays from Supreme Court Rules 15.1(a) and 21.1(a) by being argumentative and/or inaccurate in the following instances. First, Schlafhorst did not win a jury verdict on a factual issue. Second, the agreement was a joint research and development (R&D) agreement, not a "secret patent pooling agreement." Third, there was a stipulation consenting to a bench trial entered into the record and embodied in the Judge's Order. Fourth, not only did Schlafhorst never object "explicitly" or otherwise to the Judge's numerous statements that the jury would be "advisory only" on the § 135(c) defense until days after the jury was dismissed, Schlafhorst repeatedly conveyed that it was not relying on Respondent Schubert's jury demand as to this defense. Fifth, the Judge's statements concerning the advisory jury were not "equivocal," and Schlafhorst understood that the 135(c) defense would be tried non-jury. Sixth, Petitioner quotes Schubert's counsel out of context: If by Schlafhorst's references to "friendly competitors," it intends this Court to infer that competitors must be unfriendly, uncivil, or compete unfairly to avoid the stigma of antitrust implications, such references are misleading.

Schubert would rephrase the questions presented by Schlafhorst as follows:

1. Did Schlafhorst's repeated urging of the judge to decide the 135(c) issue, verbal and actual disavowal of Schubert's jury demand, and verbal and actual consent to the judge's repeated statements that he was submitting an advisory question on the 135(c) defense

and would decide it himself, amount to waiver of a jury verdict on the 135(c) defense?

2. Is the Federal Circuit holding that Schlafhorst presented it insufficient evidence to disturb the trial court's 135(c) determination correct when the undisputed evidence shows an agreement which gives the parties a right to use the other's technology but is made neither in connection with nor in contemplation of the termination of an interference nor is causally related to termination of an interference?

PARTIES

Rieter Holding AG, Winterthur, Switzerland, purchased a controlling stock interest in Respondent Schubert & Salzer Maschinenfabrik Aktiengesellschaft in 1987. With this exception, Respondent has no parent company, subsidiaries (except wholly owned subsidiaries) or publicly held affiliates.

EXPLANATORY NOTES

Names-Abbreviations Used:

The West German company Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH is referred to herein as "Suessen."

The related British companies Stone-Platt Industries, Limited, Platt Saco Lowell, Limited, and TMM (Research) Ltd. are referred to herein, collectively, as "Platt."

The Swiss company Maschinenfabrik Rieter Aktiengesellschaft is referred to herein as "Rieter."

Annotations to the Record refer to the Federal Circuit's Joint Appendix page number. For example, page 2030 of the Joint Appendix used in the appeal to the Federal Circuit is designated JA 2030.

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STATEMENT OF THE CASE

Schubert presents this statement to correct inaccuracies and omissions in the statement presented by Schlafhorst.

Schlafhorst's defense of this action for infringement of Schubert's '312 patent on automatic rotor cleaning, including payment of the damages, is co-financed by a West German company known as Suessen. Confidential business agreements are common practice. Schlafhorst and Suessen have secret agreements cross-licensing U.S. patents and one funding litigation against Schubert.[1]

In the 1960's, a Czech textile machinery manufacturer led in the development of a commercial open-end spinning machine. On May 18, 1965, three other manufacturers, Schubert (German), Rieter (Swiss), and Platt (British), began a ten-year joint R&D Agreement to develop an open-end spinning machine to compete against the Czech's.[2] Max Huttner, then the head of Rieter's Patent Department, negotiated and signed the agreement for Rieter. Rolf Canzler participated as head of Schubert's Patent Department.[3]

To overtake the Czech's lead, the three newcomers combined their knowledge while developing their own machines. They exchanged information and licenses to use each other's patents and inventions.[4] No partner had a right to sublicense or share in royalties or damage awards of another partner's patent developed under the agreement.[5] Only licenses for patents covering commonly de-

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[1] As to secrecy, contrast Schubert's R&D Agreement, which appears in Schlafhorst's Appendix to the Petition, to the Schlafhorst/Suessen Agreement which Schlafhorst submitted to the Federal Circuit in a Confidential Appendix.

[2] JA 10 [Finding No. 19].

[3] JA 925.

[4] JA 10 [Finding No. 20].

[5] JA 702-03.

veloped technology needed the consent of all three partners.[6] The agreement does not mention interferences.[7] The technical people exchanged research results, and the patent agents discussed the state of the art two or three times a year.[8]

Schubert filed the '312 patent application in the U.S. Patent Office (PTO) before Rieter filed an automatic rotor cleaning application. Both applications were pending before Patent Examiner Watkins, who allowed Schubert's application. Schubert knew of Rieter's application[9] by the time of Huttner's February 1968 memo[10] to the partners acknowledging the importance of Schubert's invention.[11] After Schubert paid the issue fee in October 1968, Watkins decided that some of Schubert's claims interfered with a Reiter claim. He directed Schubert and Rieter to copy the other's claims and informed them that failure to copy would constitute a disclaimer of the subject matter, and copying would result in an interference under § 102(g) to determine which application had priority. After Rieter and Schubert copied the suggested claims, and Schubert presented a claim of even broader scope than those suggested by Watkins, the '857 Interference was declared on May 29, 1969. It was the only one the partners ever had,[12] but did not involve all of the claims in the parties' applications.[13]

Huttner had previously supervised a U.S. interference and had studied U.S. Patent Law at Columbia University

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[6] Joint R&D Agreement clause 7(b).

[7] JA 11 [Finding No. 23].

[8] JA 882-83.

[9] JA 892.

[10] JA 2668-79.

[11] JA 889-91.

[12] JA 932.

[13] *E.g.*, JA 2778.

under Giles S. Rich.[14] Since the PTO files established that Schubert's German filing preceded Rieter's Austrian filing,[15] he concluded that Schubert would win the interference pursuant to 35 U.S.C. § 102(g).[16] He knew an interference was costly,[17] and unwise to settle by agreement.[18] This disposed him to unilaterally terminate the interference.[19] Shortly after the declaration of interference, he telephoned Canzler as a courtesy to inform him of his decision.[20] Schubert informed its U.S. attorney, who on July 25, 1969, requested the PTO to extend the time for filing its preliminary statement in view of Rieter's announced termination.[21] An error in form defeated Rieter's initial termination attempt. Around November 24, 1969,[22] Rieter mailed the corrected form to its U.S. attorneys, who sent it to the PTO on December 3, 1969.

Meanwhile, each partner was developing the capability of introducing its own distinctly designed open-end spinning machine.[23] Beginning in August of 1969, the partners began to negotiate a one-page supplement to the Joint R&D Agreement to further the intention of each partner

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[14] JA 909, 930 (Now Judge Rich of the Federal Circuit).

[15] JA 915; Absent use in the United States, the earliest date of invention is the date of the priority application filed in another county. 35 U.S.C. §§ 102(g), 119.

[16] JA 924; JA 11 [Finding No. 31]; This is the same conclusion Schlafhorst reached before trial when its § 102(g) defense based on Rieter's application was dropped. *See* Pretrial Court Exhibit No. 1 (JA 3297a).

[17] JA 930.

[18] JA 932-33.

[19] JA 930.

[20] JA 924.

[21] JA 2779.

[22] JA 913.

[23] JA-904.

to make its own individual machine.[24] It continued the free use of each other's technical information for the original term to help catch the Czech's, who in 1967 introduced the first commercial open-end spinning machine.[25] The last partner signed the Supplement on December 2, 1969.[26]

When the PTO terminated the interference on February 5, 1970,[27] Rieter lost valuable rights to the interfering subject matter, since neither royalties nor infringement damages were shared under the Joint R&D Agreement or Supplement.[28]

In the late 1970's, Schubert, Platt and Rieter sued Suessen and others for infringing one of their jointly developed patents. Suessen filed an antitrust counterclaim based in part on the Joint R&D Agreement. This and other disputes were settled worldwide in June 1982 by several patent cross-licensing agreements. The Federal District Court in Rockford, Illinois, approved the so-called Rockford settlement. Schubert proposed including cross-licenses for each parties' automation patents, including the patent in suit, in the Rockford settlement. However, Schlafhorst and Suessen, under Mr. Stahlecker's direction, refused. The R&D Agreement formally ended in November 1982.

In 1983, Suessen sued Schubert for infringing two automation patents excluded from the Rockford settlement. Schlafhorst co-financed Suessen's suit, which won a judgment of liability, and this Court denied certiorari.[29]

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[24] JA 11 [Finding No. 30].

[25] JA 465.

[26] JA 11 [Finding No. 22].

[27] JA 2774-94, *2792*.

[28] JA 21.

[29] *Schubert & Salzer Maschinenfabrik Aktiengesellschaft v. Spindelfabrik Suessen-Schurr*, ___ U.S. ___, 108 S.Ct. 1022 (1988).

When the present action began in 1985, Schlafhorst asserted numerous defenses, including invalidity under 35 U.S.C. § 102(g) and unenforceability under 35 U.S.C. § 135(c), which requires filing agreements between interference parties in the PTO when such agreements are "made in connection with or in contemplation of the termination of the interference." After Schlafhorst unsuccessfully moved for summary judgment based on its 135(c) defense,[30] the parties agreed to try the case before a Magistrate empowered to enter the final judgment of the district court. Before trial, Schlafhorst dropped its § 102(g) defense which alleged that Rieter invented before Schubert, and filed a second losing summary judgment motion on the 135(c) defense.[31]

Having recently retired after six years as the Chairman of a Board of Appeal of the European Patent Office,[32] Huttner testified in a deposition taken by Schlafhorst in Munich, West Germany on March 30, 1987, that *neither* the Joint R&D Agreement *nor* its Supplement was made in connection with or in contemplation of the termination of the interference.[33] He testified that Rieter's royalty-free right to practice the patent in suit was ***not*** the reason Rieter terminated the interference,[34] and that Rieter's termination was ***not*** dependent on the signing of the Supplement.[35]

Huttner never appeared personally at the trial before the Court and the jury. His undisputed testimony was read into the record from his deposition, and Canzler corroborated it. The Judge believed that the 135(c) issue should

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[30] JA 67.

[31] JA 738.

[32] JA 875-76.

[33] JA 910-11, 915, 918-19.

[34] JA 906.

[35] JA 911.

not go to the jury even in an advisory capacity.[36] *At Schlafhorst's urging*, he tried to convince Schubert that he should decide it, but initially Schubert resisted.

Twice early in the trial[37] and again after Schubert rested,[38] the Judge stated in open court that he would decide the 135(c) defense. On the latter occasion, he said that he would send the 135(c) defense to the jury **"advisory only."**[39] On the eve of instructing the jury, the Judge again announced that he would send the 135(c) defense to the jury **"advisory"** and that he would "decide afterwards" if he had to.[40] Schubert said **"All right."**[41] Schlafhorst made no objection at any of these instances,[42] but rather encouraged the Judge to pursue this procedure,[43] clearly recognizing that the 135(c) defense was to be decided **"nonjury."**[44]

The parties' initial disagreement on the burden of proof for deciding the 135(c) defense[45] ended when Schubert agreed to Schlafhorst's proposal of the "preponderance of the evidence" standard.[46] The parties never agreed on a jury instruction for the 135(c) defense, and neither party's proposed instruction was used.[47] Since the question was

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[36] JA 730.

[37] JA 730; 738.

[38] JA 1517.

[39] JA 1517 (emphasis added).

[40] JA 1950 (emphasis added).

[41] JA 1517 (emphasis added).

[42] JA 738; 1517; 1950.

[43] JA 730.

[44] JA 1951 (emphasis added).

[45] JA 1950.

[46] JA 1969.

[47] Compare JA 353-56; 237-40 with JA 2047-49, 2079-80.

advisory, neither party objected to the instruction or verdict form.[48]

The Judge put the jurors at ease by kidding them that they needed "the wisdom of Solomon" in applying § 135(c).[49] Explaining the verdict form, he assured them that if they were stuck on 135(c) they could ask for further instructions.[50] After submitting the 135(c) advisory question to the jury, the Judge expressed second thoughts about bothering to submit it. However, he hoped that an advisory verdict would show the Federal Circuit the dilemma of instructing a jury on the 135(c) defense.[51]

On June 26, 1987, the jury returned its verdict in favor of Schubert and answered the advisory question on the 135(c) defense. Before polling the jury, the Judge twice reminded the parties, without contradiction or objection by Schlafhorst, that the verdict was only advisory as to the 135(c) defense.[52] Schlafhorst moved entry of the advisory verdict. The Judge refused and again reminded Schlafhorst that, **"We had understanding at the beginning it was advisory."**[53] Again Schlafhorst did not deny it. The Judge indicated that he soon would decide the estoppel and 135(c) defenses and would accept further briefing or additional information from the parties.[54] Before adjourning, he asked whether the parties wanted to put anything else on the record, and Schlafhorst declined.[55] In a memo filed on July

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[48] JA 2053-74.

[49] JA 2047.

[50] JA 2079-80.

[51] JA 2064.

[52] JA 2136, 2137.

[53] JA 2137 (emphasis added).

[54] JA 2138-39.

[55] JA 2139.

2, 1987, Schlafhorst *for the first time* denied that it had agreed to the advisory jury.[56]

On July 8, 1987, the Judge filed a 17-page Order containing Rule 52 Factual Findings and Conclusions of Law on the equitable estoppel and 135(c) defenses, including a finding that the parties agreed to the advisory verdict procedure.[57] He also ruled that because the facts were undisputed, the § 135(c) issue was a legal one only and not one for the jury. He entered judgment for Schubert for $6.3 million. Neither party asked for a new trial or JNOV.

On appeal, Schlafhorst denied it agreed to the advisory jury. The Court of Appeals responded at the outset of a five-page unpublished opinion:

> Here, Schlafhorst consented to trial by the magistrate on the section 135(c) issue. The magistrate repeatedly articulated his intention that he independently was going to decide the section 135(c) issue and that the section 135(c) issue was being sent to the jury in an advisory capacity only. Not only did Schlafhorst fail to object at trial to the magistrate's proposed treatment of the issue but when questioned by the magistrate, Schlafhorst, in open court, consistently maintained the position that the section 135(c) issue was a legal issue not appropriate for resolution by a jury.

SUMMARY OF ARGUMENT

Whether the parties waived jury trial of the 135(c) defense and agreed to let the judge decide with an advisory

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[56] Memorandum in Support of Defendants' Motion for Entry of Judgment of Patent Unenforceability Based on the Verdict of the Jury.

[57] JA 9, 10 [Finding No. 13].

jury, turns on the facts. There are no conflicts among the circuits on the law, only different outcomes based on different facts. Here, the lower courts have merely applied well settled legal principles of jury waiver and advisory jury to the ample evidence of a stipulation of waiver.

The Federal Circuit's holding that Schlafhorst failed to present sufficient evidence to disturb the trial court's determination of the 135(c) defense is not worthy of review by this Court. The § 135(c) defense arises infrequently and is not of general interest. Patent interferences rarely occur in the federal case load, and the 135(c) defense is rarer still. Six years of exclusive Federal Circuit jurisdiction over patent cases has resulted in but one reported opinion on § 135(c),[58] and it is consistent with the prior case law, which remains undisturbed by the present unpublished opinion. The present case is the *only* application of this one opinion in the four plus years since it was rendered.

ARGUMENT

I. The Waiver Issue Turns on The Facts and Is Inappropriate for Review by This Court

A. The Waiver Issue Is Wholly Fact-Specific

This case presents a fact issue on waiver,[59] and the facts involve more than Schlafhorst's silence. There are Schlafhorst's words and deeds before trial and throughout the two weeks of trial. The question is whether all the facts amount to waiver? Answering that question for this case will not make an important contribution to federal procedural law because different facts will distinguish this Court's decision.

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[58] *CTS Corp. v. Piher Int'l Corp.*, 727 F.2d 1550 (Fed. Cir.), *cert. denied*, 469 U.S. 871 (1984).

[59] E.g., *Stevens v. Mutual Protection Fire Ins. Co.*, 84 N.H. 275, 149 A. 498, 504 (1930) (Whether a party has waived its right to a jury trial presents a question of fact for the trial court).

The following trial excerpts and sampling of the case law reaching the same result on similar facts, establish the correctness of the lower court determinations. Typical of the factual nature of the waiver issue is *Stewart v. RCA Corp.*, 790 F.2d 624 (7th Cir. 1986): "The important point is that Stewart's counsel never told the district court that he objected to the turn the proceedings had taken." *Id.* at 630. "Explicit consent is preferable to implicit, yet although we trust the district judge will not often accept implicit consents, what happened here was enough to turn the proceeding into a partial bench trial." *Id.* at 631.

Statements by a party's counsel expressing lack of enthusiasm for a jury trial coupled with participation in a bench trial without objection are factors contributing to the adequacy of consent to withdrawal of a party's jury demand.[60] Similarly, consistent efforts of a party to defeat its opponent's jury demand demonstrate the party's nonreliance on that demand and so may contribute to a waiver of the party's right to object when the opponent eventually withdrew its demand.[61] All of these factors are present in the instant case. Rather than relying on Schubert's jury demand, Schlafhorst disavowed the jury by repeatedly urging the Trial Judge to decide the 135(c) defense.

At the start of the second trial day, Schlafhorst disdained the jury on the 135(c) defense:

> **THE COURT:** Let's go back to whether it's [135(c)] a jury issue or not, I don't think it is. Strictly a legal issue. There are no facts; there is a document. Whether it should have been filed or not is, ***I think, a legal issue***.

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[60] *Amburgey v. Cassady*, 507 F.2d 728, 730 (6th Cir. 1974).

[61] *Reid Bros. Logging Co. v. Ketchikan Pulp Co.*, 699 F.2d 1292, 1304 (9th Cir. 1983).

> **MR. PARK** [**Schlafhorst** Counsel]: ***I think it is too, Your Honor.***[62]

At the end of the second day of trial:

> **MR. PARK** [**Schlafhorst** Counsel]: Here again, I don't know whether Your Honor is going to have this [135(c) Issue] to be a jury question.
>
> **THE COURT:** I didn't want to make it [135(c) Issue] a jury question. I don't know, have y'all ever been in a case where you presented it to a jury?
>
> **MR. PARK:** ***No way***, I don't think the factual question under *Old Dominion*, Your Honor.
>
> * * *
>
> **MR. PARK:** ***Your Honor, there is no way to charge a jury on it*** [135(c) defense].[63]

Schlafhorst's words undercut its complaint that the Judge decided the 135(c) defense instead of the jury, and would be dismissed as "invited error,"[64] were it error at all.

Once the parties express their assent to the trial court's indicated intention to decide an issue triable to a jury as a matter of right, then the jury demand has been withdrawn or waived for that issue within the requirement of Rule 38(d).[65] Thus, such facts as participation in a bench trial with clear awareness of and without objecting to the judge's decision to find dispositive issues of fact without a jury may result in waiver of a jury demand in a proper

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[62] JA 559 (emphasis added).

[63] JA 729-30 (emphasis added).

[64] *Chemical Eng'g. v. Essef Indus., Inc.*, 795 F.2d 1565, 1572, 230 USPQ 385, 390 (Fed. Cir. 1986).

[65] *West v. Devitt*, 311 F.2d 787, 788 (8th Cir. 1963).

case.[66] Similarly, statements made by the court without objection from the parties when the case was submitted, are factors contributing to an oral stipulation to a non-jury trial.[67]

On the third trial day, the Trial Judge stated, "I think it [the 135(c) defense] is a matter that ***I'll have to decide*** after everything is in the record, all the testimony is in the record. Anything before the jury comes in?"[68] Schlafhorst failed to object to the Judge's opinion that he would decide the 135(c) defense at the close of testimony.

As the Judge denied Schlafhorst's motion for judgment as a matter of law on the 135(c) defense at the end of the sixth trial day, the following stipulation to an advisory jury occurred.

> **THE COURT:** All right, let me hear your next motion.
>
> **MR. PARK** [**Schlafhorst** Counsel]: Other is 135(c) and basically that is the record is in, and ***we think it shows as a matter of law***, we made arguments before, we just renew.
>
> **THE COURT:** If I can do it intelligently, I'm going submit that to the jury, if I can do it where I think they understand it, ***advisory only***. Will be the last part of the verdict. After they reach everything else, then they go back to 135, say yes or no.
>
> **MR. DORITY** [**Schubert** Counsel]: I think that is a jury question.

---

[66] *United States v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 950 (4th Cir. 1985) (drug seizure forfeiture).

[67] *United States v. Missouri River Breaks Hunt Club*, 641 F.2d 689, 693 (9th Cir. 1981).

[68] JA 738 (emphasis added).

THE COURT: I'm not sure, I'll cover it both ways. I'll let the jury decide, ***then I'll decide also***.

MR. DORITY: ***All right***.

THE COURT: That way we won't have to retry this case. I mean if you got a case, I wish you'd share with me, because I sure haven't found one which says -

MR. PARK: Got the cream of the crop from us, Your Honor

MR. TURNER [**Schlafhorst** Counsel]: We filed reply on that point this morning also, which you may perhaps have not seen.

THE COURT: I have not seen, if you found a case.

MR. TURNER: I have rediscussed in another fashion some cases that are in there and also some evidence.

THE COURT: What was your conclusion?

MR. TURNER: Need I say, Your Honor?

THE COURT: Let's do it both ways just to make sure. That's the only safe way I know to do. One thing we don't want sent back. Don't think a man in this room wants to go through this again, or woman.

MR. DORITY: I think that's a reasonable-

THE COURT: All right, next motion.

MR. PARK: ***That's it, Your Honor***.[69]

On the eve of instructing the jury, the Judge repeated that he was sending 135(c) to the jury in an advisory capacity:

THE COURT: Here we are talking about, we don't know whether it should go to the jury; we don't know the burden of proof. I am going to

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[69] JA 1517-18 (emphases added).

> send it to the jury ***just to protect ourselves*** so we don't have to retry the case, and ***I'll decide afterwards, if I have to***. I may not have to. I hope they decide for me, let them decide. ***We'll send it to them advisory***, that way we're all protected.
>
> **MR. DORITY** [**Schubert** Counsel]: I would agree, if Mr. Parks would agree to it, that we don't disclose what burden, say it's just a violation.
>
> **THE COURT:** We can't do that, that wouldn't be fair to the jury. I got to tell them how to decide it one way or the other. That is the easiest way. I thought about that too. That wouldn't be fair.
>
> **MR. PART** [sic] [**Schlafhorst** Counsel]: In a ***nonjury***, how would - how would they decide?
>
> **THE COURT:** Pardon me?
>
> **MR. PARK:** ***Nonjury***, have you had a ***nonjury***, where they said what burden they used?[70]

Rather than voicing an objection, the three references to ***nonjury*** by Schlafhorst's counsel indicate that he knows the 135(c) defense will be decided ***nonjury***, and goes along with the procedure outlined by the Judge. Thus, Schlafhorst knew the verdict was to be advisory, yet proceeded without objection. Would any trial judge in the country have known that Schlafhorst felt it was being denied its constitutional right to a jury trial under these facts?

Had it been other than advisory, Schubert would have objected to the jury form, which gave no guidance other than mere recitation of § 135(c).[71] Since it did not affect the outcome, neither party so much as glanced at the

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[70] JA 1950-51 (emphasis added).

[71] *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707, 723 (Fed. Cir. 1984)(error to merely repeat statutory language unless its meaning and application to the facts are clear without explanation).

135(c) portion of the verdict form. Had it not been advisory, surely Schubert or Schlafhorst would have pointed out the form's erroneous reference to § 235(c) instead of § 135(c).

Since Schlafhorst never demanded a jury on the 135(c) defense, its right to one depends upon whether it relied on Schubert's demand. Schlafhorst disavowed any reliance on Schubert's demand by repeatedly urging that the defense be decided by the Judge. In effect, Schlafhorst consented in advance to Schubert's waiver.[72]

On page 16, the Petition erroneously suggests that the magistrate's reply reflects indecision about whether the verdict was advisory. To the contrary, the magistrate's reply indicates only that he had not made up his mind on the merits of the 135(c) defense. If he already had decided to rule for Schlafhorst on the merits of 135(c), he might have indicated this by entering the jury's verdict as his own, pending his Rule 52(a) findings and conclusions. But he had not decided yet, as is evident by his invitation to

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[72] *See Reid Brothers Logging Co. v. Ketchikan Pulp Co.*, 699 F.2d 1291, 1303-05 (9th Cir. 1983) (Party's persistent efforts to defeat another's jury demand demonstrated no reliance on that demand. That party therefore waived its right to rely on the protection of Rules 38(d) and 39(a)). *See also Rosen v. Dick*, 639 F.2d 82 (2d Cir. 1980) ("[c]onsent is only required to the extent that a particular party would have been entitled to rely on the demand." 639 F.2d at 92. "[I]f a litigant has already waived the jury trial right as to certain issues, he cannot be relieved of that waiver by withholding consent to the withdrawal of a jury demand." *Id.*); *Gonzalez v. Concourse Plaza Syndicates, Inc.*, 361 N.E.2d 1011 (N.Y. 1977) ("Certainly, when, as here, plaintiff has already expressed a preference for a non-jury trial, a statutory protection is unnecessary. In effect, by making an express request for a nonjury trial, plaintiff consented, in advance, to any withdrawal or waiver of a demand for a jury trial." 361 N.E.2d at 1012-13); *Lieberman v. Aetna Insurance Co.*, 57 Cal.Rptr. 453 (Cal. App. 1967) (The plaintiff's position prior to trial that a jury trial should not be had was "in effect a waiver of any right to trial by jury." *Id.* at 462).

the parties to submit further briefing and information, which both parties did.

The parties' directed verdict arguments primarily addressed the jury issues of validity, infringement, abuse of process, and damages. However, since counsel were addressing the judge on these points, they took the opportunity to argue the 135(c) defense. But Schlafhorst grasps at straws if it must use this display of overzealous advocacy as its proof that there was no agreement to an advisory jury. Moreover, Schubert never moved for JNOV because there was no jury verdict on 135(c).

Finally, on page 17 of the Petition, Schlafhorst tried to bolster its inferential argument that it did not consent to a non-jury trial by its unsupported assertion that the issue could not have been submitted advisory under Rule 39(c). Even if true, this fails to prove its point. However, the assertion itself is contrary to both common sense and the better reasoned authority. According to the weight of authority, an advisory jury can be used in jury-waived actions triable as a matter of right to a jury.[73] An advisory verdict is not binding on the trial court, which has the power to decide factual issues.[74] Even the disfavored use of an ad-

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[73] *(American) Lumbermens Mut. Cas. Co. v. Timms & Howard, Inc.*, 108 F.2d 497, 500 n.2 (2d Cir. 1939); *Computer Systems Eng'g., Inc. v. Qantel Corp.*, 571 F. Supp. 1365, 1372-73 (D. Mass. 1983), *aff'd*, 740 F.2d 59 (1st Cir. 1984) (excellent discussion of why an advisory jury is available in a case triable to a jury); *Henderson v. Harrah's Marina Hotel Casino*, 110 F.R.D. 66, 68 (E.D. Pa. 1986); 5 *Moore's Federal Practice* Para. 39.10[1] (concluding that the Second Circuit's approach in [*American*] *Lumbermens* allowing advisory juries in *all* cases is the better approach and that even if such use is not permitted, it is not reversible error because the ultimate decision rests with the trial judge); 9 Wright & Miller *Federal Practice and Procedure*, § 2335 at pp. 127-128 (concluding that an advisory jury should be available in cases triable by a jury).

[74] *Cox v. Babcock and Wilcox Co.*, 471 F.2d 13, 14 (4th Cir. 1972); Fed. R. Civ. P. 52(a) ("In all actions tried upon facts . . .with an

visory jury fails to warrant reversal of amply supported judicial findings.[75] Thus, an advisory jury's inability to affect the judge's fact finding power, renders it harmless.

Regardless of how this Court would resolve the above facts in this waiver issue, its decision would have no authoritative application to any other case.

B. There Is No Conflict Among the Circuits

Contrary to Petitioner's argument, the Circuit decisions fail to present a clash of legal principles, only different outcomes turning on different facts. The cases cited by Schlafhorst are distinguishable on their facts. For example, the *DeGioia v. United States Lines Co.*[76] opinion distinguishes itself on the facts: "[W]e need not decide whether on this record it would have been error for the trial judge to submit the case to the jury in an advisory capacity only, since that is not what occurred." 304 F.2d at 424 n.1.[77] In *Palmer v. United States*,[78] the party filed a jury demand, and the record before the appellate court showed no oral stipulation to withdraw this demand. Unlike *Palmer*, Schlafhorst made no demand and did much more than merely participate in a bench trial. In *Zidell Exploration, Inc. v. Conval Int'l, Ltd.*,[79] the party made a jury demand, and the judge and counsel had only a four sentence, equivocal exchange as to waiver of that demand as

advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon,. . . .").

[75] *Moss v. Lane Co.*, 471 F.2d 853, 855 (4th Cir. 1973); See also *The Advisory Jury* 5 Fed. Rules Serv. 837, 838 (Difficult to imagine any case in which unauthorized use of advisory jury would be reversible error).

[76] 304 F.2d 421 (2d Cir. 1962).

[77] Having overlooked a jury demand, the judge stated he was using an advisory jury. Realizing his error, he entered the jury's verdict.

[78] 652 F.2d 893 (9th Cir. 1981).

[79] 719 F.2d 1465 (9th Cir. 1983).

to a single disputed fact determination, not an entire defense. Unlike *Zidell*, the numerous statements of Schlafhorst's counsel, including triple repetition of "non-jury," fail to qualify as counsel's "equivocal remarks." In *Casperone v. Landmark Oil & Gas Corp.*,[80] the party failed to appear at pretrial where all other parties consented to a bench trial, failed to appear at the beginning of the trial, and failed to object to the trial until after it was over and he lost. In all of these cases, as in the present one, the outcome results from weighing and evaluating all of the particular acts and expressions of the parties and the trial judge. There is no legal principle over which the courts differ.

C. Reversal Sanctions Ambushing the Trial Judge

Reversing the Court of Appeals would allow Schlafhorst and others to ambush the trial court by playing deaf, dumb and blind. *Stewart v. RCA Corp.*, 790 F.2d 624, 630 (7th Cir. 1986)("[A] party ought not be able to try an issue without risk, reveling in his victory if he wins but holding in reserve if he loses an argument that the issue should not have been tried at all.").[81]

The Judge who observed the jury during eight consecutive trial days stated that he did not think the jury understood how to apply § 135(c) to the facts. The Judge used the 135(c) advisory question to show the Federal Circuit that it was unsuitable for jury resolution.[82] The jury's erroneous answer supports the Judge's perception. Schlafhorst seeks to turn this innocent exercise, to which

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[80] 819 F.2d 112 (5th Cir. 1987).

[81] *See also U.S. v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 951 (4th Cir. 1985)("To permit the appellants to lodge an early demand for a jury trial and then, in effect, 'ambush [the] trial judge' on appeal is patently unfair.").

[82] JA 2064.

it never objected, into a question of constitutional proportions.

Never once when the Judge stated either that he was going to decide the 135(c) defense[83] or that it was only going to the jury in an advisory capacity,[84] did Schlafhorst object in any way, shape, manner or form of expression. Its first objection occurred days after the jury had been dismissed. Litigants cannot expect to be heard on objections to the conduct of the trial raised for the first time on appeal when such objections could and should have been raised in the trial court.[85]

II. The Federal Circuit's Holding–That There Was Insufficient Evidence to Disturb the Trial Court's 135(c) Determination Is Unworthy of Review

Rather than turning on an important legal principle worthy of review by this Court, the 135(c) defense turned on Schlafhorst's failure to present adequate evidence of causation to warrant reversal by the Federal Circuit. Since causation is a determination requiring review of all of the particular facts and circumstances, review of this particular determination of causation decides no legal principle of widespread application. This is especially true here because the 135(c) defense rarely appears in the case load of the lower courts.

Schlafhorst, which had the burden of proof, presented inadequate grounds for determining that the unfiled agreements bore a causal relationship to the interference termination. On page 17 of the Petition, Schlafhorst asserts: "It [Section 135(c) issue] is an issue of fact and was so treated by both the Magistrate and the Federal Circuit."

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[83] JA 738; 1517; 1950.

[84] JA 1517; 1950; 2136; 2137.

[85] *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707, 714 (Fed. Cir. 1984).

However, rather than resolutions of conflicting evidence, the factual statements (Nos. 11, 12 and 14-33) on the merits of the 135(c) defense in the judge's order are summaries of the undisputed evidence.[86] This evidence admits of only one conclusion capable of withstanding a directed verdict. That conclusion is that the agreements had "*no causal relationship* to the interference proceedings."[87] Thus, the Federal Circuit held that, "[b]ecause Schlafhorst has not given us grounds to disturb this [135(c)] determination by the magistrate, we must affirm his decision on this issue." There is no reason why that finding requires review by this Court.

Schlafhorst's innuendos and attorney arguments fail to rise even to the level of circumstantial evidence,[88] and are refuted by the timing and content of the agreements and the undisputed testimony of the men who negotiated them and supervised the parties during the interference.

One such innuendo implies that the agreements caused Rieter to give up too easily. However, Schlafhorst gave up its defense of the same 102(g) issue at pretrial conference.[89] Rieter merely voluntarily ended the same 102(g) contest (interference) it could not win since it filed its application after Schubert and lacked evidence that Schubert's employees were not the first inventors.

Schlafhorst attempts to tease a certworthy issue from the Federal Circuit's holding by asserting that it involves a matter of important Congressional policy and that, because wrongly decided, it threatens that policy.

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[86] Schlafhorst concedes as much by stating on page 13 of the Petition: "None of the facts relating to the secret pooling agreement is in dispute."

[87] JA 11 [Finding Nos. 29, 30] (emphasis added).

[88] *See Weinar v. Rollform, Inc.*, 744 F.2d 797, 806 (Fed. Cir. 1984) (argument of counsel on appeal cannot substitute for evidence).

[89] *See* Pretrial Hearing Court Exhibit No. 1 (JA 3297a).

Schlafhorst's position, however, has two serious flaws. First, Schlafhorst uses buzz words like "affecting" and "patent pool" to obscure the Congressional purpose and express wording of the statute. Second, Schlafhorst misapplies the existing case authority.

A. No Important Congressional Policy Is at Stake

Schlafhorst quotes from a Justice Department letter noting that the purpose of § 135(c) is to require the filing of settlement agreements to make it more difficult for patent owners to use an interference settlement agreement as a means of restricting competition or violating the antitrust laws. This purpose would not be served by requiring the filing of the Joint R&D Agreement and Supplement. First, they are not interference settlement agreements. Second, they are not the sort of agreement that prompted Congress to enact § 135(c). The partners did not share access to patents and other information to remove the incentive to contest U.S. patent interference proceedings, and Schlafhorst's innuendos to the contrary are unsupported by any evidence. Moreover, the agreements are pro-competitive. Shared access to one another's patents helped overcome the Czech's headstart and enable three more competitors to enter a market with high entry barriers and requiring substantial long-term investment. Schlafhorst itself has 80 percent of the U.S. market for this machinery.

The language of the statute unambiguously fails to apply to the present situation. It expressly limits the kinds of agreements which must be filed. It does *not* require filing all agreements between parties to an interference [*CTS*, 727 F.2d at 1556]. It does *not* require filing agreements that "affect" the incentive of the parties to contest the priority issues in the interference on their merits to a conclusion. It only requires filing those agreements "made in connection with or in contemplation of the termination of the interference."

Schlafhorst appears to contend that 135(c) mandates filing all cross-licensing agreements (which Schlafhorst tries to disparage with the name "patent pool") between parties to an interference. However, if Congress wanted § 135(c) to mandate filing such agreements, Congress would have said so in the statute or the legislative history. Rather than use "cross-license" or "patent pool," Congress used "made in connection with or in contemplation of the termination of the interference."

The '857 Interference refutes Schlafhorst's contention that a cross-license agreement "makes irrelevant the outcome of *any* interference between the [contracting parties]" involving the cross-licensed subject matter.[90] The right to use the interfering subject matter differs from the right to benefit from a third party's use of it. While Rieter has the right of use, it lost to Schubert the right to benefit from third party use such as damages awarded for Schlafhorst's use. Thus, the interference outcome was far from irrelevant to Schubert and Rieter.

In short, the Court of Appeals' unpublished opinion in this case does not threaten any Congressional policy.

B. The Facts Weave This Federal Circuit Decision Neatly into the 135(c) Case Law

The *CTS* decision affirmed a trial court's holding of no violation of § 135(c) based upon a finding of no causal connection between the agreements and termination of the interference. An examination of the *CTS* facts demonstrates what degree of causation may exist without triggering § 135(c). Two of the three separate agreements made by the *CTS* parties to settle all their pending controversies referred directly to the interference. The parties had discussed requesting Certiorari to seek review of interference issues. Settlement negotiations were ongoing

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[90] Petition p. 20 (emphasis added).

during all but the last phase of the interference, when the case settled.

The *CTS* facts present a far stronger basis for finding a "causal relationship" than the facts here. First, the contemporaneous factor of causality is nonexistent here. The Joint R&D Agreement was made in 1965, more than a year before either Schubert's or Rieter's invention existed and about five years before the interference termination. If the parties had intended the Supplement to play a role in ending the interference, then they would have waited for its demise before signing.[91] Supplement negotiations did not begin until after Huttner decided to terminate, and it was signed weeks after Rieter made its first attempt to terminate and months before the interference officially terminated. Furthermore, Huttner stated without contradiction that the execution of the Supplement was *not* dependent in any way on the interference termination.[92]

Second, the agreements here neither refer to an interference, nor make any provision for interference settlements. They pertain to the parties making their individual machines,[93] and involve a third party which is not needed to terminate the interference.[94] The Joint R&D Agreement's arbitration clause did not preclude participation in the interference. The only fair interpretation that can be given to the clause is that it pertains to disputes about the Joint R&D Agreement itself. The three parties from three nations merely chose to settle disputes about their international agreement according to the Deeds-of-Arrangement and Arbitration Statute of the International Chamber of Commerce in Paris.

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[91] JA 21.

[92] JA 911.

[93] JA 11 [Finding No. 22].

[94] JA 21.

The *CTS* opinion discusses what kinds of facts must be found to hold that an agreement must be filed:

> What we need to look for is evidence that Piher thought it was giving up something by way of dropping the interference in consideration for this settlement, and in addition, evidence that CTS believed it was receiving something in the form of terminating the interference as a result of this settlement.[95]

In the *Old Dominion Box* case,[96] the agreement changed the rights of the parties to the technology to compensate the loser of the interference.

Here by contrast, instead of an exchange of consideration, Rieter lost valuable royalty rights and gained nothing when it unilaterally terminated. Schubert's patent won exclusive control of the royalty rights for the interfering subject matter. Neither agreement compensated Rieter for losing these rights, on which Rieter put a substantial value.[97] The jury in effect valued the royalty rights at more than $13 million for Schlafhorst's infringement.[98] Rieter gets none of the jury's award. The only evidence on Rieter's reason for terminating was that it was convinced that it could not prevail over Schubert's earlier filing date.[99]

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[95] *CTS Corp. v. Piher Int'l. Corp.*, 219 USPQ 1180, 1182 (N.D. Ill. 1983), *aff'd*, 727 F.2d 1550 (Fed. Cir. 1984).

[96] *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550 (S.D.N.Y. 1967), *aff'd on other grounds*, 393 F.2d 321 (2d Cir. 1968).

[97] JA 889-91; Huttner regarded the Landwehrkamp et al invention of the patent in suit as one of the important inventions developed by a partner, as indicated by its listing in paragraph 5(e) of Huttner's February 1968 memo [JA 2678].

[98] Schubert was awarded a $6,300,000 royalty on about $144,000,000 in sales beginning with the date the suit was filed. Total sales exceeded $300,000,000, but marking deficiencies limited royalties to sales occurring after suit was filed.

[99] JA 915, 924 (Huttner deposition testimony).

Rieter's refusal to fund an unwinnable interference[100] resembles the situation in *United States v. FMC Corp*[101] where a party dropped pending oppositions to cut its losses after realizing it was certain to lose because of the first-to-file rule.

The *Box* agreement was made on the day one party wrote the other, "If you feel the interest of both parties will best be served by abandoning the Arneson application, we are authorized to drop the prosecution of the same."[102] Thus, while the *Box* agreement fails to mention the interference or the settlement, a contemporaneous letter mentioned both. Here, no settlement offer exists, much less one contemporaneous with either of the agreements. Even Huttner's courtesy telephone call to Canzler occurred after Rieter's unilateral decision to terminate and was strictly informational, not a settlement offer.

The *Box* rationale holds that an exclusive licensing agreement should have been filed because it gave the parties the *same* exclusive *rights* and thereby *eliminated* the incentive to continue the interference. It removed a potential competitor from the market and the need for that party to develop a new technology to compete with the interfering subject matter. Similarly, the court in *PPG Industries, Inc. v. Bausch & Lomb, Inc.*,[103] observes:

> The statute requires only the filing of agreements made in settlement of interferences or those which *totally* destroy the incentives of the parties to the interference to litigate in an adverse manner. The license agreement in question here did not terminate or otherwise decide the

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[100] JA 906.

[101] 215 USPQ 43, 53 (E.D. Pa. 1982), *rev'd on other grounds*, 717 F.2d 775 (3d Cir. 1983).

[102] *Old Dominion Box*, 273 F. Supp. at 561-62.

[103] 205 USPQ 914, 919 (W.D.N.Y. 1979)(emphasis added).

> interference, and Research Corporation, the only party to the license agreement who was also a party to the interference, retained the same strong incentives to litigate after the license agreement that it had before that agreement. Research Corporation's financial incentives to win the interference were greater after the license agreement than they had been before it.

Here, the valuable royalty rights Schubert won in the interference, are distinctly *different* from and *greater* than Rieter's rights under the agreements, which did not *eliminate* the incentive to pursue the interference. Moreover, they did not eliminate a competitor since Rieter today sells its own open-end spinning machine with automatic rotor cleaning. Similar to the incentive of Research Corporation, the Supplement increased the parties' incentive to win the interference, because they were working on separate machines which would be competing in the marketplace.

In the *Moog* case,[104] a party's own action of trying to file a supplemental agreement served as an admission that it was "made in connection with or in contemplation of the termination of the interference." Moreover, the *Moog* supplemental agreement modified the original agreement to change the rights of the parties to the invention.[105] Here by contrast, there is no evidence that Rieter agreed with Schubert to end the interference,[106] and the Supplement does not change the parties' rights to the patent in suit.

In the *Forbro* case,[107] the judge had concluded that all of the claims were invalid for obviousness before analyzing

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[104] *Moog, Inc. v. Pegasus Labs, Inc.*, 521 F.2d 501, 187 USPQ 279 (6th Cir. 1975).

[105] *Moog*, 521 F.2d at 505, 187 USPQ at 282.

[106] JA 11 [Finding No. 32].

[107] *Forbro Design Corp. v. Raytheon Co.*, 390 F. Supp. 794 (D. Mass. 1975), *aff'd*, 532 F.2d 758 (1st Cir. 1976).

the makeweight 135(c) defense. The *Forbro* parties admitted negotiations to settle the interference, both before and after making a cross-license agreement. They admitted that the agreement caused them not to pursue the interference as vigorously as they otherwise might have done. Thus, the evidence in *Forbro* was that the cross-license agreement *in fact* removed the adversary character of the interference. Unlike *Forbro*, the agreements here are not simultaneous with the interference's *de facto* termination, namely, Rieter's decision. There is no evidence to support Schlafhorst's innuendo that the agreements caused any lack of effort in pursuing the interference. To the contrary, Schubert added a claim to broaden the scope of the interference beyond the claims suggested by the Examiner.

Thus, the decision of the Court of Appeals is entirely consistent with the applicable precedent. As with the waiver issue, different results arise from different facts. There is no need for this Court to examine the question whether, on the particular facts of this case, the correct result was reached.

CONCLUSION

Since the petition fails to present any reason which would warrant review by this Court, it should be denied.

Respectfully submitted,

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IN THE
Supreme Court of the United States
OCTOBER TERM, 1988

W. SCHLAFHORST & CO.,
AMERICAN SCHLAFHORST COMPANY
and GREENWOOD MILLS, INC.,
Petitioners,

v.

SCHUBERT & SALZER MASCHINENFABRIK
AKTIENGESELLSCHAFT,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1988

No. 88-1020

W. SCHLAFHORST & CO.,
AMERICAN SCHLAFHORST COMPANY
and GREENWOOD MILLS, INC.,
Petitioners,

v.

SCHUBERT & SALZER MASCHINENFABRIK
AKTIENGESELLSCHAFT,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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REPLY BRIEF FOR PETITIONERS

Petitioners W. Schlafhorst & Co., American Schlafhorst Company, and Greenwood Mills, Inc. ("Schlafhorst") submit this Reply Brief in support of Schlafhorst's Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit.

ARGUMENT

A. The question presented in this case is whether Fed. R. Civ. P. 39(a) means what it says. The answer given by the Federal Circuit and Respondent Schubert & Salzer is "No." Schubert & Salzer's discussion of "waiver" reflects the same disregard of Rule 39(a) that makes the Federal Circuit decision both pernicious and worthy of certiorari. Nothing in the record shows that Schlafhorst made any stipulation consenting to a bench trial as required by Rule 39(a). Where there has been a timely jury demand (as there was here), the plain meaning of Rule 39(a) is that the right of trial by jury is preserved except upon either a written stipulation or an "oral stipulation made in open court and entered in the record" consenting to a bench trial.

The distinction between "waiver" and a Rule 39(a) stipulation is critical. If Rule 39(a) means what it says, then a "waiver" by silence or inaction should be an insufficient ground on which to deprive a party of its seventh amendment right to trial by jury. *Zidell Explorations, Inc. v. Conval Int'l, Ltd.*, 719 F.2d 1465, 1469 (9th Cir. 1983); *Palmer v. United States*, 652 F.2d 893, 896 (9th Cir. 1981); *DeGioia v. United States Lines Co.*, 304 F.2d 421, 424 n.1 (2d Cir. 1962).

This case is not fact-bound. The question presented is nothing more factual than whether the lower federal courts should apply the "precise terms" of Rule 39(a), *Palmer*, 652 F.2d at 896, or should follow the approach of the Federal Circuit and disregard the stipulation requirement of that rule. The Fourth Circuit has noted the disagreement among the courts of appeals on this issue. *United States v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 950-51 (4th Cir. 1985) ("Several courts have concluded that the right to a jury trial, once properly demanded, may be waived only through strict compliance with the precise terms of Fed. R. Civ. P.

38(d) and 39(a). [citations omitted] Other circuits, however, have held that Rules 38(d) and 39(a) are not to be so strictly interpreted."). Since this question directly affects the right to trial by jury, this Court should grant certiorari.

B. Schubert & Salzer asserts that "there was a stipulation consenting to a bench trial entered into the record and embodied in the Judge's Order," but nowhere in Schubert & Salzer's Brief (or in the opinion of the Federal Circuit) is there any citation to the record showing any express consent by Schlafhorst to a nonjury trial.

As substitutes for a Rule 39(a) stipulation, the Federal Circuit and Schubert & Salzer point to: (i) the absence of any explicit objection from Schlafhorst to the remarks of the Magistrate concerning the role of the jury on the section 135(c) issue; and (ii) Schlafhorst's arguments that the section 135(c) issue was one of law to be decided on summary judgment or directed verdict. Neither substitute is sufficient.

Even if the Magistrate had been clear and consistent that the jury would be advisory (rather than confused and equivocal as he was), Rule 39(a) requires a stipulation. A failure to object is not a stipulation. The difference is shown by comparing this case with *West v. Devitt*, 311 F.2d 787, 788 (8th Cir. 1963), which was cited by Schubert & Salzer, Brief Opp. 11 n.65, where the court *quoted* the express stipulation made in open court that clearly satisfied Rule 38(a). This is an important issue because the right to a jury trial is important. The Federal Circuit treated this constitutional right, and the Federal Rules of Civil Procedure that protect it, as unworthy of serious analysis.

Astoundingly, neither the Federal Circuit nor Schubert & Salzer even cited Fed. R. Civ. P. 50(a), which provides that "[a] motion for directed verdict . . . is not a waiver of trial by jury." (Schlafhorst raised Rule

50(a) in both its opening and reply briefs in the Federal Circuit; in its petition for rehearing, Rule 50(a) was the *first* point Schlafhorst stated had been overlooked by the Federal Circuit.) It would, of course, be impossible for the Federal Circuit to cite Rule 50(a) and reach the result (as the Federal Circuit did) that Schlafhorst lost the right to a jury trial by moving for a directed verdict.

C. In contrast to the Federal Circuit's decision here, the Third Circuit's recent decision in *Bereda v. Pickering Creek Industrial Park, Inc.*, No. 88-1202 (3d Cir. Jan. 6, 1989), reflects a serious analysis of the Federal Rules of Civil Procedure. In *Bereda* (which was decided after Schlafhorst's petition for certiorari was filed), plaintiff's sex discrimination claim was not triable of right to a jury, but the parties demanded a jury, and the claim was tried to a jury. After the verdict, the district court ruled that the jury was only advisory.

The question presented in *Bereda* was "at what stage in a case tried by a nonadvisory jury by the demand of both parties must the presiding judge indicate that the jury's verdict is advisory only and not a verdict with 'the same effect as if trial by jury had been a matter of right.'" The Third Circuit held that Rule 39(c) requires that the trial judge "must notify both sides of a jury's advisory status no later than the time at which the jury selection has begun."

The court reasoned that "considerations of fairness to the litigants indicate that Rule 39(c) should not be interpreted to allow a district judge to rule a jury verdict advisory after the parties have begun to implement their trial plan. . . ." Quoting with approval from *Hildebrand v. Board of Trustees*, 607 F.2d 705, 710 (6th Cir. 1979), the court noted that "[t]o convert a trial from a jury trial to a bench trial (or vice-versa) in the middle of the proceedings is to interfere with counsel's presentation of their case and, quite possibly, to prejudice one side or

the other." In short, the Third Circuit in *Bereda* is sensitive to the unfairness that, as a practical matter, results from a shift in the role of the jury late in a trial.

The Federal Circuit's decision here, in contrast to *Bereda*, authorizes the conversion from a binding jury to an advisory jury at the end of the trial without the express consent of either party. Schlafhorst tried its case to a jury, and won, only then to see the Magistrate disregard the jury's verdict on the sole ground that it was advisory. Under the reasoning of the Third Circuit in *Bereda*, this result is impermissible because the Magistrate finally decided to treat the jury as advisory long after the jury was selected and after Schlafhorst had put its trial strategy into effect.

D. Schubert & Salzer argues that "Schlafhorst disavowed any reliance on Schubert's [jury] demand by repeatedly urging that the [section 135(c)] defense be decided by the Judge." Brief Opp. 15. As argued above, Schlafhorst's arguments that the section 135(c) issue should be decided as a matter of law were all made in the context of its motions for directed verdict or (at the start of the trial) for summary judgment, under the express protection of Fed. R. Civ. P. 50(a) (which neither the Federal Circuit nor Schubert & Salzer cited).

There is also another reason for rejecting Schubert & Salzer's 'reliance' argument: Schubert & Salzer *itself* never withdrew its jury demand or stipulated to an advisory jury. In its Statement of the Case, Schubert & Salzer misstates the record by placing its reply "All right" immediately after the Magistrate's statement "that he would send the 135(c) defense to the jury 'advisory' and that he would 'decide afterwards' if he had to." Brief Opp. 6 (*paraphrasing* J.A. 1950). In fact, the "All right" was spoken *two days before* and closely followed Schubert & Salzer's assertion to the Magistrate that the section 135(c) issue would be "a jury question!" *See* Brief Opp. 12-13 (*quoting* J.A. 1517). The colloquy at J.A. 1517, taken fairly as a whole, contemplates only

the procedure set out in Rule 50(b), which provides that when a motion for directed verdict is not granted, "the court is deemed to have submitted the action to the jury subject to a later determination of the legal questions raised by the motion."

The plain fact is that Schubert & Salzer, like Schlafhorst, understood that the jury's verdict was binding. Why else would Schubert & Salzer itself have moved for a directed verdict on the section 135(c) issue? J.A. 1937. Why else would Schubert & Salzer, immediately after the verdict, ask for a poll of the jury "to make certain they understand who they [are] ruling for?" J.A. 2136.

E. In practical effect, Schubert & Salzer interprets 35 U.S.C.A. § 135(c) as follows: An illegal agreement in restraint of trade that destroys a party's economic incentive to litigate an interference in good faith need not be filed with the PTO, provided only that the agreement does not mention the interference, and that there is self-serving testimony that the agreement was not the reason for terminating the interference. According to Schubert & Salzer, it is simply irrelevant that the secret pooling agreement here removed any economic reason for Rieter to pursue the interference and that the secret partners entered into the Supplement to the pooling agreement contemporaneously with the termination of the interference.

The Federal Circuit actually accepted this evisceration of section 135(c), and therefore review by this Court is warranted.

The rule in the Federal Circuit is plainly wrong, because it permits easy evasion of section 135(c). All a terminating party need do is avoid any mention of the interference in a pooling agreement with its putative opponent and then present testimony that the subjective motive for terminating the interference was not the agreement but instead a belief that the other side had the better case. It is difficult to accept that this is what

Congress and the Department of Justice intended when section 135(c) was enacted.

The correct interpretation of section 135(c), which the Federal Circuit should have adopted, is that an agreement must be filed if it has a causal connection to the termination of the interference, and that such a causal connection exists where, because of an agreement with the other party to the interference, the terminating party has no incentive to seek to prevail in the interference.

F. Schubert & Salzer is clearly uncomfortable with the term "patent pool," and prefers "joint research and development." The secret agreement, however, is quite similar to the patent pool in the glass industry that this Court struck down in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 400, *clarified*, 324 U.S. 570 (1945), and so whatever Schubert & Salzer wishes to call its secret agreement should not obscure the important point that an agreement among competitors to share all patents in a given field has significant restrictive effects.

Schubert & Salzer's claim that Rieter "lost valuable royalty rights" by not pursuing the interference is overstated. The secret agreement prohibits any partner, including Rieter, from licensing any patent within the scope of the agreement to any third party without the consent of all the partners. The evidence discussed by Schlafhorst in its petition at pages 7 and 19 shows that the partners would be unlikely to consent, and indeed even Schubert & Salzer does not claim that consent would be forthcoming. Thus, Rieter had in reality nothing to gain even if it had won the interference.

G. Schubert & Salzer invites a contrast between its secret patent pool, and the agreement between Schlafhorst and Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH ("Suessen"). Brief Opp. 1 n.1. The Schlafhorst/Suessen agreement is confidential, but (unlike Schubert and Salzer and its "friendly competitors") Suessen and Schlafhorst are not competitors. Instead, Sues-

sen is a supplier to Schlafhorst of components, and therefore the agreement between them is vertical, not horizontal.

Finally, Schubert & Salzer complains that its description of the secret partners as "friendly competitors" was taken out of context, and states that it is "misleading" for Schlafhorst to assert that "competitors must be unfriendly, uncivil, or compete unfairly to avoid the stigma of antitrust implications." That was not Schlafhorst's meaning at all. Instead, Schlafhorst took Schubert & Salzer's statement "[t]hey were friendly competitors, that's what the whole system is about," to be an apt and candid description of a naked conspiracy in violation of this country's antitrust laws, a conspiracy that included Schubert & Salzer. The jury's verdict in favor of Schlafhorst shows that the jury concluded that the secret agreement among the "friendly competitors" should have been filed with the PTO, and their verdict should be entered as the judgment in this case.

CONCLUSION

For the reasons stated in the Petition and in this Reply Brief, Petitioners ask that a writ of certiorari issue to the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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